The Incorporated Accountants' Journal

The Official Organ of
The Society of Incorporated Accountants and Auditors

THE INCORPORATED ACCOUNTANTS' JOURNAL *is published monthly, on the first day of each month, at an Annual Subscription of 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 3d., postage extra.*

Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Vol. XLVIII **APRIL, 1937** **No. 7**

Contents.

Professional Notes.

By the death of Sir Austen Chamberlain an outstanding figure has passed from our midst. It was in politics that Sir Austen made his name, and the Prime Minister has described him as a very great Parliamentarian with unshakeable loyalty to everything he honestly believed to be right. He had a remarkable career. In the course of his 45 years of Parliamentary life he held most of the important offices of State—Chancellor of the Exchequer, Leader of the House of Commons, Secretary of State for India, First Lord of the Admiralty, and Secretary of State for Foreign Affairs—and for five years he represented this country with great ability in the Councils of the League of Nations.

Sir Harry Trelawney Eve, better known as Mr. Justice Eve, has resigned his position as a Judge of the High Court of Justice, an office he has held with great distinction for many years. Sir Harry was born in October, 1856, and is therefore in his eighty-first year. He was called to the Bar in 1881 and took silk in 1895. He is remembered first as one of the busiest of Chancery juniors, and his subsequent success as a leader and as a Judge has made his name familiar, not only in the legal profession, but also in business and commercial circles. Upon his retirement he was made a Privy Councillor. The vacancy on the Bench has been filled by the appointment of Mr. Gavin Simonds, K.C., who has made a reputation as an Equity lawyer.

The Prime Minister has announced that the Chancellor of the Exchequer will open his Budget on Tuesday, April 20th.

The Incorporated Accountants' Research Committee have been enquiring into the forms of accounts in use in various trading industries, and they invite criticisms and suggestions on specimen forms prepared by them, which will be found in another part of this issue. Communications upon the matter should be addressed to the Secretary, Incorporated Accountants' Hall, Victoria Embankment, London.

A Committee, presided over by Mr. Justice Atkinson, has for some time been considering the question of arranging for official shorthand note-taking in witness actions in the Chancery and King's Bench Courts, and the Attorney-General has now announced that the Lord Chancellor has decided to adopt the recommendations of the Committee in favour of the institution of such a system. More than twelve months ago the Lord Chief Justice commented on the slowing down of the pace of trials in *nisi prius* cases (in other words, witness actions), by reason of the Judge having to take full notes of the evidence in longhand—a feature of Law Court procedure which must have struck many observers as being somewhat antiquated.

The Board of Trade estimate of the balance of payments for 1936 gives the visible adverse balance, *i.e.*, the excess of imports over exports, as £346,800,000. This is the highest since the year 1931, and is partly accounted for by the higher price of primary products imported into this country. Against this adverse balance there is estimated to be a substantial increase of invisible income, including £20,000,000 from shipping and £15,000,000 from interest on foreign investments. The total invisible income for 1936 is estimated to have risen by £45,000,000, leaving a net adverse balance of payments of £19,000,000 for the year, as compared with an estimated favourable balance of £33,000,000 in 1935.

The Inland Revenue Report for the year ended March 31st, 1936, contains some interesting information as to death duties, stamp duties, and income tax. Regarding the last-mentioned, the number of persons with total incomes above the exemption limit is the same as it was four years earlier, but the number chargeable with tax shows a reduction of 250,000, a larger proportion being relieved of tax by the operation of allowances. In the year 1931-32—the year in which the personal allowances were reduced—there was an increase of 3,000,000 in the number of persons with incomes above the exemption limit. Of these, 1,600,000 were relieved by the operation of allowances, leaving an addition of 1,400,000 to the number of those who became actually chargeable to tax. In subsequent years the number of taxpayers has fallen, probably as a result of trade depression and latterly by reason of an increase in the personal allowances.

The statistics regarding sur-tax show that in 1934-35 the number of persons assessed was 2,030 more than in the preceding year, and that the total income assessed increased by over £17,000,000. Of the total sur-tax payers, who in 1934-35 numbered 85,449, about two-thirds had assessable incomes of less than £4,000 and four-fifths had incomes of less than £5,000. On the other hand, as many as 69 had incomes exceeding £100,000, the total income of the group amounting to £11,485,300.

The Comptroller and Auditor-General in his report on the accounts of the Unemployment Fund for the year ended March 31st, 1936, states that the contributions increased by over £2,500,000, and that the expenditure on benefit decreased by £1,089,000. The income for the year exceeded the expenditure by £13,366,000, and the adverse balance of the Unemployment Fund was reduced to £81,000,000.

Where debentures of a company confer on the holders an option to cash their interest warrants in a foreign currency at a fixed rate of exchange, and the interest is not paid out of profits or gains brought into charge, what is the obligation of the company as regards liability to tax? This question came up for decision in an appeal by the Crown from a judgment of Mr. Justice Lawrence in the matter of *Rhokana Corporation, Limited*, v. *Inland Revenue Commissioners*. The appeal related to an additional assessment on the company under Rule 21, in consequence of the fact that certain debenture holders exercised their option to encash their interest warrants in New York in dollars.

The claim for tax was based on the extra value arising from the alteration in the sterling rate of exchange from $4.86 to $3.40, owing to the depreciation of the pound which took place in September, 1931, when this country went off the gold standard. Mr. Justice Lawrence decided that the right to get dollars was an added right which did not affect the interest on the debentures, and that Rule 21 of the All Schedules Rules had no application to the added right.

The Appeal Court have disagreed with this ruling, their view being that interest on money referred to in Rule 21 includes interest paid in foreign currency. This principle they considered was clearly recognised last year in the case of *Payne* v. *Deputy Federal Commissioner of Taxation*. Their Lordships added a qualification that they did not agree with the view of the Special Commissioners that the relevant date of conversion from dollars to sterling was the date when the debenture interest fell due, but thought the dates of the actual payments, which were somewhat later, were the right dates, and incidentally, these were more advantageous to the tax-payer in this case.

In a recent case in the Chancery Court Mr. Justice Bennett challenged the right of the Commissioners of Inland Revenue to accept under a scheme of arrangement for reduction of capital a smaller sum than the total amount due for income tax. It was pointed out by Counsel that the Commissioners had on other occasions compromised claims in winding-up proceedings, but His Lordship wanted to know their authority; if they had such a power it must be in some Act of Parliament. He said there was a bargain being made by the Board

of Inland Revenue, and he wanted to be satisfied that it was made by someone who had authority. The petition for the sanction of the scheme of arrangement was accordingly ordered to stand over for further evidence.

At the subsequent hearing of the petition Mr. Justice Bennett sanctioned the scheme, but said he was not deciding that the Commissioners had the power they claimed. In the meantime the question has been raised in the House of Commons, when the Chancellor of the Exchequer indicated that in cases where payment of the full amount of tax could not be obtained, or could not be reasonably enforced, the Commissioners of Inland Revenue had an inherent power of remission. The full text of his reply is given under " Questions in Parliament " in another column.

In our issue of August last we referred to the case of *Beresford* v. *Royal Insurance Company Limited*, where the question arose as to whether the Insurance Company escaped liability under a life policy by reason of the fact that the assured had committed suicide, one of the terms of the policy being that if the assured should die by his own hand, whether sane or insane, within one year from the commencement of the assurance the policy should be void. At the time of the suicide the policy had run for about nine years. Mr. Justice Swift held that the company was liable, his ground being the sanctity of contract, and he refused to admit the plea of public policy.

The Court of Appeal have now reversed this decision and held that the company is not liable. Lord Wright, in delivering judgment, said it was clear that the deceased deliberately killed himself in order to allow his estate to collect the insurance money. Under the criminal law of this country self-murder was a felony, and while that law remained the Court was bound to apply the general principle that it would not allow a criminal or his representative to reap, by the judgment of the Court, the fruits of his crime. That principle applied without qualification to the suicide in this case. He said it might seem a hardship to hold that the Insurance Company was not in law compelled to pay, but the Court found it impossible to hold otherwise.

Last month the House of Lords gave reasons for their decisions in two cases in which their judgments had already been intimated, one in November last and the other in the month of January. In the case of *Imperial Chemical Industries, Limited*, where a dispute arose regarding a scheme for reduction of capital, Lord Blanesborough, who delivered the judgment, reviewed at some length the main features of the scheme and its equitable effect as between different classes of shareholders. The main point he said was whether the holders of Deferred shares, of which the appellant was one, were to become holders of Ordinary shares representing one-half the nominal value of their previous holding in Deferred shares, namely one fully paid Ordinary share of £1 for every four Deferred shares of 10s. each.

The question, he said, was not an easy one to answer, but after considering the scheme in all its aspects, he thought the reduction might in the result be held to be fair to the Deferred shareholders if the Ordinary share which under the scheme they were to receive in exchange had been shown to be the fair equivalent of every four of their unreduced Deferred shares. On this aspect of the case he felt the difficulty that in fixing that proportion no allowance appeared to have been made for the advantage accruing to the old Ordinary shareholders from the transfer to capital reserve of the £5,434,541 previously credited to the Deferred shares alone. But on consideration he thought that this item, large as it was, ought not finally to weigh in the balance against the positive, independent, and highly instructed opinions of Sir Albert Wyon and Sir William McLintock (the accountants) that the scheme was in their judgment entirely fair to the Deferred shareholders. The appeal of the Deferred shareholders was accordingly dismissed, but without costs.

Their Lordships did not seem to be greatly concerned with the submission of the appellants that the question for the Court was whether, having regard to the contents of, and omissions from, the circular letter to the shareholders describing the scheme, the Court was satisfied that the majority who voted for the scheme did so with such materials for their consideration as ought reasonably to have been put before them.

The other case in which the House of Lords deferred the reasons for their decision was *The King* v. *International Trustee for Protection of Bondholders Aktiengesellschaft*. In this appeal by the Crown the matter in dispute was the effect of a gold clause in certain bonds issued by the British Government in the United States of America in the year 1917. In 1933 the gold content of a dollar in the United States had been reduced, and the question before the Court was whether the British Government could discharge its obligation under the bond by

making payments in the depreciated dollars which had become current in the United States or whether it was bound to pay such a number of depreciated dollars as would be equal in value to the due number of dollars of the standard specified in the bond. The case turned upon one main point, namely, what was the proper law governing the contract.

In delivering the unanimous judgment of the Court, Lord Atkin said that the legal principles which guided an English Court on the question of the proper law of contract was now well settled. It was the law which the parties intended to apply, and his conclusion was that not English but American law was the proper law of the contract they were considering. He found it impossible to assume that the parties who started with an American contract either in fact intended, or in some way signified to each other the intention, no longer to be bound by American law, but for the future to substitute English law. As it was admitted that the resolution of Congress of June 5th, 1933, had statutory effect in the United States of requiring a bond in the present form to be discharged upon payment dollar for dollar of the nominal amount, it followed that the claim to be paid a larger sum than the nominal amount must fail. This decision reverses the judgment of the Court of Appeal, which was dealt with fully in an article in our December issue.

THE MEANING OF "FREE OF INCOME TAX."

THE General Rules relating to Income Tax provide, *inter alia*, that every agreement for payment of interest, rent, or other annual payment in full without allowing any deduction of income tax shall be void. This provision does not in terms apply to a will, but merely applies to an agreement for payment. Wills frequently contain bequests that an annuity is to be paid in full. There is nothing to invalidate the creation of an annuity such that, after deduction of income tax, it will amount to a fixed yearly sum. This is usually carried out by a covenant to pay to the trustees such a sum as, after the deduction of income tax at the standard rate for the time being in force, shall leave a clear sum of X pounds.

It is chiefly in the construction of wills that the question arises as to whether an annuity escapes or has to bear income tax. Free of tax, *prima facie*, means freedom from super-tax or sur-tax as well as ordinary income tax. In *Re Bates* (1925) a testator gave to his wife "such a sum in every year as, after deduction of the income tax for the time being payable in respect thereof, will leave a clear sum of £2,000." The Court held that this entitled the wife to £2,000 free of income tax only, and she was not entitled to payment of any sum in respect of super-tax. The testator did not provide that she should be paid a sum free of super-tax. In *Re Pettit* (1922) a testator gave an annuity free of income tax, and the annuitant, under the provisions of the Income Tax Act, obtained relief by way of repayment of income tax in excess of the amount properly payable by him. It was held that the residuary estate of the testator was entitled to such proportion of the sum so repaid as the annuity bore to the total income of the annuitant.

Where the trustees of a will requested an annuitant, to whom the annuity was payable free of income tax, to sign an application form claiming relief from income tax (the sum so recoverable being for the benefit of the testator's estate) and she refused to do so, it was held that she was a trustee of her statutory right to recover for the benefit of the testator's estate the tax overpaid in respect of her annuity and was bound at the request of the trustees to sign a proper application form for that purpose. (*Re Kingcome*, 1936.)

In *Re Jones* (1933) a testatrix by her will directed her trustees to pay to or apply for the benefit of her daughter such an annuity as after deducting income tax therefrom at the current rate for the time being would amount to the clear yearly sum of £350. In December, 1932, the Inland Revenue Commissioners paid to a receiver appointed by the Court of the daughter's income the sum of £131 12s. 7d., being allowances and reliefs in respect of income tax upon the annuitant's income for the three preceding financial years. It was held that so much of that sum as was attributable to tax upon the annuity in question belonged to the annuitant and not to the residuary estate of the testatrix. Income tax "at the current rate" means tax at the standard rate, irrespective of reliefs and abatements.

The expression "to be paid clear of all deductions whatsoever for taxes or otherwise" was held by the Court of Appeal in *Re Shrewsbury Estate Acts* (1924) to mean that the annuity was payable in full without any deduction for income tax but not free from super-tax. The words used by the testator must clearly show that he understands the deductions to include income tax before an annuity is payable free of income tax.

The effect of a provision in a will that an annuity is to be paid free of tax is therefore that the trustees of the will must set aside annually

such a sum as after payment of the tax leaves a clear sum payable to the beneficiary, but as the testator's bounty is limited to the receipt of that clear sum only, the beneficiary is not entitled to keep any repayment of tax for his own benefit. Where a beneficiary is entitled to a sum "free of income tax" and obtains repayment of the tax by reference to a claim for personal allowances, he must of course account to the trustees for that proportion of the repayment which the sum bears to his total income.

In *Shrewsbury* v. *Inland Revenue* (1936) Mr. Justice Lawrence said that he was unable to draw any distinction between the words "clear of all deductions whatsoever for taxes or otherwise," and the words "free of all deductions for income tax or otherwise." If the words had been "free of tax" they would have been read as including super-tax. The reason for the distinction was that the word "deduction" was included in the one case and not in the other, and that super-tax is not imposed by way of deduction. The private Act of 1843 referred to in this case was passed long before super-tax was ever thought of, and just after the Income Tax Act, 1842, had been passed, which did impose income tax by way of deduction from annuities.

The effect of the words "clear of all deductions whatsoever for taxes or otherwise" is that the sum to be brought in for the purpose of sur-tax is the amount of the annuity plus the relative income tax.

SOME RECENT TRENDS IN POPULATION AND INDUSTRY.

[CONTRIBUTED.]

OUR future historians will probably look back on the present age and see in it an industrial revolution no less far-reaching in its effects than that which occurred in the years 1760-1830. Curiously enough, some of the main tendencies of the period 1760-1830 are now in process of being reversed. The industrial revolution was marked by a rapid increase in population and a concentration of that population on the coalfields; the present tendency is towards a declining population and a movement of industry towards the south and away from the main coalfields. In addition, the present time is witnessing a transfer of labour and capital from the older industries to the newer. To a certain extent this tendency involves a transfer from industries catering largely for exports to those satisfying the home market. It is true that some years must elapse before the full effect of these changes will be felt, but in certain cases these effects would seem to be inevitable, particularly those connected with our future population. Unfortunately, the importance of these changes is ignored by some people and even denied by others. Let us examine these three tendencies in turn and attempt to understand the economic and social effects they are likely to bring in their train.

With regard to the falling birth rate, the Registrar-General has recently estimated that the population of England and Wales in June, 1935, was 40,645,000. Incidentally this represents just over one person per acre or 684 to the square mile. It is extremely probable, however, that this figure is near its maximum, and it is certain that the total population will soon begin to decline. This is due to the fact that the birth-rate has fallen greatly during the present century. It is true that the death rate has also fallen, but not nearly to the same extent. The following table illustrates the changes that are taking place in this respect.

Period	Birth Rate per 1,000	Death Rate per 1,000	Survival Rate per 1,000
1871-1880	35.4	21.4	14.0
1881-1890	32.4	19.2	13.2
1891-1900	29.9	18.2	11.7
1901-1910	27.3	15.5	11.8
1911-1920	22.9	14.5	8.4
1921-1930	18.9	12.5	6.4
1935	14.7	11.7	3.0

(The survival rate for 1933 and 1934 was 3.0.)

A survival rate of 3 per 1,000 is insufficient to maintain our existing population. Experts are now of the opinion that a decline in our population will set in, at latest by 1940, and unless the birth rate increases, this decline will gain strength.

The fall in the birth rate is causing our population to become an older one, as the average age of our people is increasing. In 1921, the average age of males was 29.9 years; by 1933 it had risen to 32.2. The corresponding figures for females are 31.2 and 33.9. The proportion of persons over 70 has increased since 1911 from 29.7 to 45 per 1,000 of the population. Another expert estimate of the future age distribution of the population of the United Kingdom is as follows:

Year	Total Population Millions	% between ages 0–15	% between ages 15–45	% over 65
1941	44.8	24.1	47.1	7.1
1976	32.7	12.5	36.0	18.2

Change in the age distribution of the population is probably more important than decline in the future total population. The percentage of persons aged 15-45—*i.e.*, of the ages when vitality and industrial efficiency are at their maximum—shows a probable fall. At the same time the percentage of persons over 65 years, who will not normally be engaged in any form of production

but will depend for their subsistence largely on the efforts of others, shows a marked probable increase. In the light of these figures, it is difficult to see how our industrial efficiency can be maintained at a consistently high level.

Respecting the growing concentration of industry in the South, the Census of 1931 showed that in the ten years from 1921-1931, the population of England and Wales had increased by 5.5 per cent., but this increase was by no means uniformly distributed through the country. The population of Greater London increased by nearly 10 per cent., and this area now contains over 20 per cent. of the total population of England and Wales, an unduly high proportion of the total. The population of Middlesex showed an increase of 31 per cent., that of Surrey 27.4 per cent., and that of Essex 19.4 per cent., whilst the population of Wales declined by 2.4 per cent., and that of Cumberland by 2.2 per cent. The Home Counties all showed increases of population well above the average, whilst the northern counties either lost population or had only small increases. The total population of Lancashire increased slightly, but many of the industrial towns of the county suffered a reduction in population. It is sometimes said that industry is moving south. By this it is to be understood that the newer and lighter industries tend to be established in the Midlands and the south. As yet there is no wholesale transfer of established industries from the north to the south. The new industries, which cater mainly for the home market, are attracted to the south because of the huge market which exists for their products in London. They make use of the power supplied to them by the Grid Scheme and employ the well-established road transport facilities of the south, and they are not unduly hampered by high rates. As an instance of the effect of the establishment of new industries, the case of Dagenham in Essex, where the Ford Motor Works is situated, is an obvious one. In 1921, the population of Dagenham was just over 9,000; in 1931 it had risen to over 90,000. Slough in Buckinghamshire and Romford in Essex can also show large, if not so spectacular, increases in population. This trend towards the south is, if anything, becoming more pronounced, and suggestions have even been made to prevent further concentration of population and industry in the region immediately around London.

Regarding the transfer of labour from the older industries to the newer ones, this tendency is in part due to the loss of some of our foreign trade and to the growth of our home markets. Most of our export industries show a considerable decline in the number of persons engaged therein as compared with a few years ago. Coal mining, which employed well over a million persons in 1921, now employs barely three-quarters of a million. The numbers engaged in the cotton industry have suffered a similar decline and there are fewer persons working on the land than there were ten years ago. These reductions have taken place in spite of the fact that the number of insured persons in employment was more than a million greater at the end of 1936 than at the end of 1925. On the other hand, the numbers engaged in the manufacture of such products as artificial silk and motor cars, *i.e.*, in the newer industries, have rapidly increased. The automobile industry now claims to employ more persons than any other.

From 1924 to 1934 there was an increase of nearly 700,000 persons engaged in retail distribution. The decline in such industries as coal mining and cotton has unfortunately brought with it the problem of the depressed areas, and though there has been a considerable transfer of labour from such areas to the more prosperous ones, this transfer has been limited mainly to the younger section of the population. The older unemployed persons, with their family ties find it difficult to move from areas where work is lacking to where the prospects of obtaining employment are brighter.

Society of Incorporated Accountants and Auditors.

COUNCIL MEETING.

At a meeting of the Council of the Society held on March 16th, there were present: Mr. R. Wilson Bartlett (President) in the chair, Mr. Walter Holman (Vice-President), Mr. A. Stuart Allen, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. D. E. Campbell, Mr. E. Cassleton Elliott, Sir Thomas Keens, Mr. Henry Morgan, Mr. C. Hewetson Nelson, Mr. F. A. Prior, Mr. Percy Toothill, Mr. Joseph Turner, Mr. R. T. Warwick, Mr. Richard A. Witty, Mr. Fred Woolley, Mr. A. A. Garrett (Secretary) and Mr. J. R. W. Alexander (Standing Counsel).

Apologies for non-attendance were received from Mr. F. J. Alban, Mr. C. P. Barrowcliff, Mr. Henry J. Burgess, Mr. Arthur Collins, Mr. W. Allison Davies, Mr. R. T. Dunlop, Mr. M. J. Faulks, Mr. Edmund Lund, Mr. James Paterson and Mr. A. H. Walkey.

GOLD AND SILVER MEDALS, 1936.

The Council made the following awards in respect of the examinations held in 1936:—

Gold Medal: Mr. William Allen Follows, Stoke-on-Trent, who took the First Certificate of Merit at the Final examination in November, 1936.

Silver Medal: Mr. Michael Philip Simmons, Salisbury, who took the Second Certificate of Merit at the Final examination in November, 1936.

MR. WILLIAM PAYNTER.

The Council received a communication from Mr. William

Paynter, London, resigning his seat on the Council. The following resolution was adopted :—

"That the Council have received the resignation of Mr. William Paynter, which has been accepted with much regret. The Council desire to record their appreciation of the valuable services rendered by Mr. Paynter as a member of the Council for a period of ten years, and particularly for his interest in the work of the Examination and Membership Committee.

"The Council send to Mr. William Paynter their cordial good wishes."

COUNCIL.

In accordance with the provisions of Article 48, Mr. Alexander Hannah, Fellow in Public Practice, Liverpool, Mr. Tom Coombs, J.P., Fellow in Public Practice, Leeds, and Mr. William Bertram Nelson, Fellow in Public Practice, London and Liverpool, were appointed to fill occasional vacancies on the Council.

DISCIPLINARY COMMITTEE.

A report was made to the Council that the Committee had suspended two members from the exercise of the rights and privileges of membership for a period for persistent neglect in each case in filing accounts and returns with the Board of Trade in connection with deeds of arrangement.

BELFAST CONFERENCE, JUNE, 1937.

The President reported the arrangements which had been made for the Incorporated Accountants' Conference to be held in Belfast, from Wednesday, June 23rd, to Saturday, June 26th, 1937.

PRESIDENTS' PANEL.

Mr. R. Wilson Bartlett presented to the Council a Panel bearing the names of the Presidents of the Society, which had been placed in the large Hall. The Council adopted the following resolution :—

"That the cordial thanks of the Council be accorded to Mr. R. Wilson Bartlett for his kindness in presenting to the Society a Panel for Incorporated Accountants' Hall bearing the names of the Presidents of the Society."

INCORPORATED ACCOUNTANTS PRACTISING IN FRANCE.

A report was received of the names of Incorporated Accountants in France approved for the official lists of Commissaires aux Comptes for the purpose of appointment as auditor of any company which invites public subscription for its shares or bonds.

CONGRESS ON ACCOUNTING IN ROME, 1937.

An invitation was received from the Organizzato dal Sindacato Nazionale Fascista Ragionieri (National Syndicate of Fascist Professional Accountants) to a Congress to be held in Rome during 1937. It was resolved that the thanks of the Council be accorded for the invitation, that the invitation be accepted, and that Mr. E. Cassleton Elliott be nominated as the Society's representative.

DEATHS.

The Secretary reported the deaths of the following members :—

Mr. James Augustine Caulfield (*Associate*), Dublin ; Mr. James Shimell Hann (*Fellow*), London ; Mr. John Hetherton (*Fellow*), York) ; Mr. Frank William Prosser (*Associate*), Trowbridge ; Mr. Edward Ridge Syfret (*Fellow*), Cape Town.

RESIGNATIONS.

The following resignations were accepted with regret as from the dates indicated :—

December 31st, 1936, Mr. Ernest Myers (*Associate*), Southend-on-Sea ; December 31st, 1937, Mr. Thomas Peter Francis Trudgian (*Associate*), Winchester ; Mr. William Henry Fox (*Associate*), Blackpool).

INCORPORATED ACCOUNTANTS' CONFERENCE IN BELFAST.

June 23rd to 26th, 1937.

BY invitation of the Incorporated Accountants' Belfast and District Society, the Society of Incorporated Accountants and Auditors will hold a Conference in Belfast from Wednesday, June 23rd, to Saturday, June 26th, 1937.

The official opening of the Conference will take place on June 23rd in Queen's University. Members will be welcomed by the Rt. Hon. The Lord Mayor of Belfast (Sir Crawford McCullagh, Bart., D.L., J.P.) and by The Vice-Chancellor of the Queen's University of Belfast.

The Rt. Hon. The Lord Mayor of Belfast (Sir Crawford McCullagh, Bart., D.L., J.P.) and The Lady Mayoress (Lady McCullagh, C.B.E.) have kindly invited members to a Civic Reception and Ball at The City Hall.

Official entertainment will be given by The Government of Northern Ireland at a Garden Party at Parliament Buildings.

There will be a cruise down Belfast Lough (by kind invitation of The Harbour Commissioners). Excursions to places of interest will be arranged,

The President of the Society will deliver an Address, and the following papers will be presented :—

"Accountancy in relation to Irish Industry and Commerce," by Mr. D. Tilfourd Boyd, F.S.A.A., B.Com.Sc., Belfast.

"The Structure of Limited Liability Companies," by Mr. Fred Woolley, J.P., F.S.A.A., Southampton.

The Incorporated Accountants' Belfast and District Society will entertain members at luncheon and at a Reception and Dance. A luncheon will also be given by the Society's Irish Branch.

The complete programme and forms of application will be issued during April.

INSTITUTE OF MUNICIPAL TREASURERS AND ACCOUNTANTS.

The fifty-second annual Conference of the Institute of Municipal Treasurers and Accountants will be held at Bournemouth on June 16th to 18th, 1937.

The programme will include the Presidential Address by Mr. Sydney Larkin, F.S.A.A. (City Treasurer, Coventry) ; papers on "Municipal Electricity Finance" by Mr. W. E. Foden, A.S.A.A. (formerly Financial Controller, Electricity Department, Manchester), and on "The Control of Expenditure" by Mr. W. C. Coxall, F.S.A.A. (Borough Treasurer, Chesterfield) ; also an address by Sir William Beveridge, K.C.B. (Director of the London School of Economics and Political Science).

INCORPORATED ACCOUNTANTS' RESEARCH COMMITTEE.

The Design of Accounts.

Amongst the duties undertaken by the Incorporated Accountants' Research Committee has been an investigation into accounting forms. Information has been obtained as to the forms in use in a great variety of trading industries, and it is hoped at a later stage to prepare a comprehensive memorandum on the general principles of the Presentation of Accounts, with specimen forms relating to a great variety of businesses, to Holding Companies and to Trustees.

Before this stage can be reached, however, it is desired to obtain the criticisms and suggestions of Accountants on the general form of accounts. For this purpose the attached specimen statements are submitted.

The Research Committee will greatly welcome any comments, which should be sent to the Secretary, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.

A. MANUFACTURING ACCOUNT.

Year ended.....

	£ s. d.	£ s. d.	% to factory cost of goods completed		£ s. d.
Materials Consumed :				*Transfer to Trading Account :*	
Stock at commencement				Factory Cost of Goods completed	
Purchases					
Less Stock at end ..					
Direct Wages					
Direct Expenses					
Prime Cost of Production					
Indirect Expenses					
Rent and Rates of Factory					
Heating and Lighting ..					
Power					
Repairs to Plant ..					
„ to Building ..					
Depreciation					
Supervision					
Factory Cost of Production					
Add unfinished work at commencement ..					
Less unfinished work at end					
Factory cost of goods completed during the year					

B. TRADING ACCOUNT.

(MANUFACTURING BUSINESS.)

	£ s. d.		£ s. d.
Cost of completed goods from Manufacturing Account		*Sales*	
Add Stock of completed goods at commencement			
Deduct Stock of completed goods at end			
Cost of goods sold			
Balance : Gross Profit on Sales transferred to Profit and Loss Account (..%) ..			

C. TRADING ACCOUNT.
(RETAIL BUSINESS.)

Year ended.....

	£ s. d.		£ s. d.
Goods consumed :		*Sales*	
Purchases			
Add Stock at commencement			
Deduct Stock at end			
Cost of Goods sold			
Balance : Gross Profit transferred to Profit and Loss Account (..%)			

D. PROFIT AND LOSS ACCOUNT.
(RETAIL BUSINESS.)

DR.				CR.
	£ s. d.	£ s. d.	% to Sales	£ s. d.
I. *Premises :*				I. *Gross Profit on Sales* ..
Rent and Rates				
Insurances				II. *Discounts received* .. ..
Heating and Lighting ..				
Repairs				III. *Interest :*
Depreciation				Bank .. .. ..
Cleaning				Investments .. ..
II. *Selling :*				
Wages and State ..				
Insurance				
III. *Despatch :*				
Wages				
Wrapping				
Motor Expenses :				
Running Costs				
Licences and Insurances				
Depreciation				
Carriage				
IV. *Travellers :*				
Salaries and Commission				
Expenses				
V. *Advertising*				
VI. *Administration :*				
Executive				
Office Salaries				
Postages and Telephone				
Sundry Office Expenses ..				
VII. *Finance :*				
Discounts				
Bank Interest, &c. ..				
Bad Debts..				
Balance, Net Profit ..				

E. BALANCE SHEET.

As at.....

	£ s. d. *Authorised*	£ s. d. *Issued*		£ s. d.	£ s. d.
I. *Share Capital:*			I. *Fixed Assets* at cost, less realisations to date of last Balance Sheet		
.. ..			Expenditure for year to date		
.. ..			Deduct Depreciation and Losses written off to date of last Balance Sheet ..		
II. *Surplus and Reserves:*			For year to date		
(*a*) General Reserves ..			II. *Subsidiary Companies:*		
(*b*) Special Reserves ..			(*a*) Shares		
(*c*) Profit and Loss Account balance			(*b*) Debentures		
Less Interim Dividends			(*c*) Current Accounts ..		
III. *Debentures and Mortgages*			III. *Investments*		
IV. *Amounts owing to Subsidiary Companies*			IV. *Current Assets:*		
V. *Current Liabilities and Provisions*			(*a*) Stocks		
(*a*) Sundry Creditors ..			(*b*) Debtors, *less* provisions for bad and doubtful debts		
(*b*) Reserves for Income Tax			(*c*) Bills receivable		
(*c*) Dividend Warrants Outstanding			(*d*) Apportionments and payments in advance ..		
(*d*) Debenture and Mortgage Interest (secured) ..			(*e*) Balance as at Bank ..		
VI. *Contingent Liabilities:* (Memorandum only)			(*f*) Cash in hand		
			V. *Preliminary and Formation Expenses*		
			VI. Profit and Loss Account: Debit Balance		

ALLEGATION OF NEGLIGENCE WITHDRAWN.

Allegations of negligence or breach of duty as auditors made against Messrs. Wood, Drew & Co., Chartered Accountants, of Cannon Street, London, E.C., were withdrawn in an action in the King's Bench Division recently.

They were sued by Messrs. John L. Sayer, Limited, fish merchants, of Lower Thames Street, London, E.C. Negligence was denied, and a counterclaim was made for £58 16s. professional fees.

Before the evidence for Messrs. Sayer was completed the parties agreed that judgment should be given for Messrs. Wood, Drew on claim and counterclaim, without costs.

Mr. Cartwright Sharp, K.C., and Mr. Eric Blain appeared for Messrs. Sayer, and Mr. F. W. Beney was for Messrs. Wood, Drew & Co.

Mr. Cartwright Sharp said that the negligence alleged was that defendants failed to audit the plaintiffs' accounts properly, and enabled a cashier employed by Messrs. Sayer to embezzle about £400.

In addition to the denial of negligence, Messrs. Wood, Drew & Co. pleaded that Messrs. Sayer were guilty of contributory negligence in continuing the services of the cashier after defalcations had been found in the petty cash.

Messrs. Wood, Drew & Co. counter-claimed fees due to them, as to which there was no dispute. They further counterclaimed a fee of 16 guineas for work done in investigating the embezzlement. Messrs. Sayer disputed that on the ground that is was defendants' fault that the investigations were necessitated. There was no question that Messrs. Wood, Drew acted perfectly honestly.

The cashier was engaged in 1934, and when the petty cash defalcations were discovered he was kept on, and it was arranged that he should pay the money back. Later the cashier admitted that he had taken further sums running into hundreds of pounds, and he was sentenced to three months' imprisonment.

According to the case for Messrs. Sayer, Messrs. Wood, Drew were warned that the cashier was suspected of dishonesty.

After two witnesses for Messrs. Sayer had been called, Mr. Cartwright Sharp told Mr. Justice Goddard that the parties had been able to come to terms. He said, "I desire publicly to withdraw entirely any charge of negligence against the defendants, and, further, to say that in the settlement we have arrived at I regard the conduct of the defence as being quite reasonable."

Mr. Justice Goddard entered judgment accordingly.

Audit of Municipal Accounts with Special Reference to Mechanical Accountancy.

A LECTURE delivered at a Students' Meeting of the Incorporated Accountants' Society of Manchester and District by

MR. J. TIPPING, A.I.M.T.A.,
INCORPORATED ACCOUNTANT.

Mr. TIPPING said: As an introduction to the subject I will briefly refer to the Statutory Provisions relating to the audit of municipal accounts.

(*a*) ***Borough Auditors.***—Under sects. 237 and 238 of the Local Government Act, 1933, which consolidated previous Acts relating to the administration of local government in this country, excluding London in certain instances, every provincial borough must, unless an alternative method of audit prescribed by the Act is in force, appoint three auditors, two elected by the local government electors, called Elective Auditors, and one appointed by the Mayor from the members of the council, called the Mayor's Auditor. These persons hold office for one year and are entitled to remuneration at the rate of not less than two guineas per day engaged upon the audit of accounts under the Public Health Acts.

This method of audit has given rise in the past to considerable adverse criticism as the persons appointed may not, and usually do not, have any professional qualifications, and the audit may consist of anything from a complete audit of the accounts to a mere examination of vouchers according to the ability or inclinations of the auditor.

(*b*) ***District and Professional Audit.***—As an alternative to the Borough Audit, sect. 239 of the Local Government Act, 1933, was introduced to give those authorities who wished to take advantage of it an opportunity of appointing in lieu thereof either—

(i) the system of district audit by auditors appointed by the Ministry of Health, or

(ii) the system of professional audit.

The resolution adopting the particular system of audit which the Council wishes to have must be passed by not less than two-thirds of the council voting at a meeting specially convened for the purpose, and confirmed at an ordinary meeting not less than one month later.

I assume you are all aware of the district audit, which is carried out by officials of the Ministry of Health, and I can assure you from personal experience that this audit has now reached a high state of efficiency, although it suffers from the disadvantage of taking place usually some considerable time after the end of the accounting period.

With regard to professional audit, so called, I presume, to distinguish it from the district audit, you will probably be interested in the precise terms of the Act relating to it. These are as follows:—

LOCAL GOVERNMENT ACT, 1933.

Power of Borough Council to adopt district or professional audit.

239. (3) Where the system of professional audit is adopted, then as from such date as may be specified in the resolution, the following provisions shall have effect—

(*a*) an auditor or auditors shall be appointed in writing under the seal of the Corporation for such period and on such terms as to remuneration or otherwise as the Council of the Borough think fit;

(*b*) no person shall be qualified to be so appointed unless he is a member of one or more of the following bodies (namely): The Institute of Chartered Accountants in England and Wales; The Society of Incorporated Accountants and Auditors; The Society of Accountants in Edinburgh; The Institute of Accountants and Actuaries in Glasgow; The Society of Accountants in Aberdeen; The London Association of Certified Accountants, Ltd.; The Corporation of Accountants, Ltd.;

(*c*) any auditor so appointed shall be entitled to require from any officer of the borough such books, deeds, contracts, accounts, vouchers, receipts, and other documents, and such information and explanations, as may be necessary for the performance of his duties;

(*d*) any auditor so appointed shall include in or annex to any certificate given by him with respect to the accounts audited by him such observations and recommendations (if any) as he thinks necessary or expedient to make with respect to the accounts or any matter arising thereout or in connection therewith.

Prior to the passing of the Local Government Act, 1933, many boroughs had appointed professional auditors under provisions contained in local Acts. My own authority have appointed professional auditors since 1920, but it was only last year that they were able to dispense with the elective auditors.

Although a borough may have appointed professional auditors, the following accounts must be audited by the district auditor, viz.:—

(i) Education accounts.

(ii) Accounts relating to houses erected under the 1919 Housing Act, up to March 31st, 1935, when the accounts kept under this Act were consolidated with those under other Housing Acts.

(iii) Accounts relating to the collection of rates.

(iv) Public Assistance Accounts.

The district auditor also audits the Police accounts by arrangement with the Home Office, and verifies all claims made by boroughs for Government grants.

This is a brief summary of the statutory provisions relating to the audit of borough accounts in the provinces, but, in addition, most authorities of average size have considered it necessary to carry out an internal audit by officers appointed by the corporation. The duty of these officials is to carry out a continuous audit of the corporation's financial transactions.

ACCOUNTS OF A BOROUGH.

The accounts may be classified under the headings of

(*a*) Trading services.

(*b*) Non-trading services, commonly called rate fund services.

The former includes such undertakings as electricity, gas, water and transport services, and the latter includes health services, roads, parks, public assistance, education, police, libraries, housing, &c.

Should you be called upon to carry out an audit of the accounts of several local authorities, you would find great dissimilarities between the methods and form of the accounts. This is due in part to the fact that in different authorities the administration of the various services is entrusted to different committees, the accounts of which it is usual to keep separate, and to the fact that where standard forms of accounts have been suggested by various bodies there is no compulsion upon authorities to adopt them.

Standard forms of accounts for certain services were recommended by the Departmental Committee on the Accounts of Local Authorities, which reported in 1907, and the annual Epitome of Accounts which all local authorities are required to return annually to the Ministry of Health has assisted uniformity. The Institute of Municipal Treasurers and Accountants has also assisted by collaborating with various bodies in preparing standard forms of accounts.

A considerable step forward in this respect was taken in 1930, when the Ministry of Health issued Accounts Orders which prescribed the accounts which should be kept by local authorities and their officers, and should any of you be brought into contact with the accounts of local authorities a perusal of these Orders would be extremely valuable.

I fear that I have dealt with the foregoing at rather too great a length, but I realise that I am speaking to a body of accountants whose duties do not often carry them into the realms of municipal finance, and perhaps, therefore, my remarks are of more interest on that account.

I will now pass on to mechanisation and audit in connection therewith.

Mechanisation and Audit.—The mechanisation of accounting records has solved some of the problems confronting the auditor, but it has created difficulties of its own. In my opinion one of the greatest of these difficulties is the fact that the use of machinery necessitates the use of slips of paper, cards and loose sheets which will fit the particular machine, and it has become necessary to introduce checks quite unnecessary with manual accounting to guard against loss arising from this source.

INCOME.

(*a*) *Receipting Machines.*—Dealing with income first, mechanised methods of issuing receipts are now in general use in many boroughs, and are probably known to all of you. The two chief methods, viz., the "Parata" metal die machine and the National cash register, have many points of similarity, the chief of which is that a stub showing the amount of the payment is detached from the account at the time of receipting.

In the case of the "Parata" machine the stub is detached from the bill by the cashier and retained by him until the end of his duty, when all the stubs are listed and the total agreed with his cash paid over. In addition to this, the number of stubs accounted for must agree with the difference between the commencing and finishing number of the numerator on the machine.

It is essential in this system :—

(*a*) That the machine should be under the control of the internal auditor, who should issue it to the cashier daily and read the commencing and finishing number.

(*b*) That the internal auditor should check over the cash listing with the stubs daily to see that the correct cash is accounted for.

(*c*) That the internal auditor should count the stubs and verify that they agree with the number of impressions made.

(*d*) On no account should a bill be stamped twice. If the first impression is not successful the account should be cancelled and retained to vouch the disparity between the number of impressions and the stubs accounted for.

It sometimes happens that the cashier fails to detach the stub, and the total number of his stubs is consequently "short" and his cash "over." The account concerned can often be traced by comparing the cheques received with the stubs, and if this is not successful the only alternative is to wait until further application is made to the customer for payment of the account, till when the money must be held in suspense.

The National cash register presents a somewhat easier problem to the auditor in that the amount received is printed on the stub and a tally roll at the same time, and the stub is automatically cut off by the machine and retained in a locked box, the keys of which should be in the hands of the auditor.

In this case the auditor should verify the cash accounted for against the tally roll extracted from the machine.

The stubs produced by both systems require careful control, and particularly with the "Parata" machine, as, if a stub is lost it is difficult to trace the account to be credited. In any case, the totals of the postings for the day, whether manual or by machine, should be agreed with the cash accounted for and in this connection so far as manual posting is concerned the carbon duplicate posting system is almost indispensable.

(*b*) *Mechanical Billing.*—There are many machines on the market for dealing with the billing of customers for goods supplied and for preparing and keeping the records showing the state of the customers' accounts from time to time. Their application to municipalities includes the billing of electricity, gas and water rentals, and other charges in connection therewith, rates, house-purchase accounts, school fees, and, in fact, in all cases where there is any degree of uniformity in the charge.

Although the machines are many, the basic principle in each case is the same. The machine has to prepare :—

(*a*) A bill for the customer.

(*b*) A personal account with the customer.

(*c*) A summary of the debit and such analysis as may be necessary for statistical and accounting purposes.

The information from which the bills are to be made out is obtained from :—

(*a*) The meter readers' record in the case of electricity and gas rentals, and for water sold by measure, and

(*b*) A record of fixed periodical charges in other cases.

These records must be in such a form that they can be handled by a machine operator at the time of billing, and the possibility of using bound books for the purpose is more or less ruled out. Loose-leaf sheets, one for each person, are found more convenient. In the case of Powers, &c., installations, the fixed charges register takes the form of punched cards, which are used over and over again until that particular charge falls out.

The method of operation varies according to the installation, but, taking the billing of electricity, gas and water rentals as an example, it is generally carried out in the following sequence :—

(*a*) The meter readers' sheets are sorted in order and the consumption for the period to be billed checked.

(*b*) The sheets are handed to the machine operator, together with a batch of bills with the consumers' names already addressographed on them.

(*c*) The machine operator takes the ledger card containing the personal account of the individual and places it in the machine, together with the relative bill. The consumption is inserted and evaluated by reference to a scale, then the fixed charges are inserted. The particulars on the bill are duplicated through carbon paper on to a summary sheet and the total thrown out on the

ledger card. In some cases the ledger card is dispensed with and the personal account takes the form of a perforated addition to the bill, which is torn off and filed before the bill is sent off.

It will be seen from this that the ledger card agrees with the bill and both agree with the summary sheet from which the debit for the period is obtained. This is alright so far as it goes, but it does not ensure that every item has been billed. This may be done by passing each batch of meter readers' sheets together with the relative fixed charges register to another person operating a calculating machine, who should run through the meter sheets and pick out the consumption at the various rates and enter this at the foot of the summary sheet. The total of this should agree with the total of the consumption on the summary sheet, and when evaluated the amount of the charge should agree after allowing for odd half-pence. The operator should also run through the fixed charges register and insert the figures arrived at on the summary, and these should agree with the totals billed.

In some installations this purpose is achieved by dividing the billing so that one operation is automatically checked in the carrying out of another. Thus, the bill and ledger card may be made out at one operation and the summary at another, both from the original records, and the total of the bills ascertained from a run through by a calculator should agree with the total of the summary sheet.

Credits to the accounts consist of:—

(*a*) Cash payments by consumers;

(*b*) Discounts allowed for prompt payment;

(*c*) Allowances in respect of overcharges; and

(*d*) Bad debts written off.

Where ledger cards are kept the credits will be mechanically posted and the amount simultaneously entered on a tally roll. If the personal account consists of a portion torn off the bill, posting will be either by hand with the use of a duplicate posting strip, or by tearing off a perforated corner of the bill when payment has been made in full.

Cash postings will, of course, be made from the stubs produced by the Parata machine or cash register, and the daily total should be agreed with the total of the cash account. It is important that the posting should be referenced either by date or number to the stub to facilitate tracing errors if the accounts fail to balance. If posting consists of tearing off the perforated corner of the office portion of the bill the date of payment should be noted on the bill, and the corner attached to the stub. The value of the corners torn off should then be listed and agreed with the total cash.

Discount should be dealt with in the same manner as cash, and it is suggested that for this purpose a memorandum column should be inserted in the cash account.

For allowances and bad debts a separate register should be kept under the control of a responsible officer, and all postings from it to the personal accounts properly referenced.

The duties of the auditor in connection with the credit entries should be to see that the lists of the posting of cash and discounts agree with the daily totals of the cash account, together with periodical test checks of individual items, and to see that allowances and bad debts are properly posted and have the authority of a responsible person.

Balancing is, of course, achieved by adding arrears brought forward at the commencement of the period to the debit and comparing the total with the total of the cash paid, discount, allowances, bad debts and arrears at the end of the period. The two totals should agree. For this purpose it is essential that a system of sectional balancing should be in operation. In my own authority the records are so divided that the accounts can be balanced in sections representing approximately 250 consumers.

The counterpart of the balance is contained in the debtor's account in the financial ledger. This account will be debited with the total billed as shown on the summary sheets and credited with cash paid, discounts, allowances and bad debts and the balance will agree with the total of the arrears listed from the personal accounts.

Having briefly outlined a typical system, I should like to mention some of the loopholes for loss which become apparent to an auditor in checking the accounts and which it is his duty to close.

(*a*) The system I have just described ensures that every charge placed before the billing machine operator has been included on an account, but it does not follow that all the meter readers' sheets have been produced, nor does it guard against the possibility of a fixed charge record being lost or even wilfully destroyed.

With regard to the loss of meter readers' sheets, if the addressograph plates are kept absolutely up to date and all changes in the fixing of meters given effect to in the addressograph system, the possibility of loss from this source is considerably minimised, as if the meter sheet is not produced there will be an addressed bill left over with no charge appearing on it.

In the case of fixed charges, a check can be maintained by keeping control accounts showing the total debit for each type of fixed charge, such as hire-purchase, simple hire, meter rent, water rate, &c., and adjusting the total as the charges fall out or new charges commence.

In all cases it is desirable that the whole of the records should be periodically checked from the independent books of the department concerned showing where every meter and appliance is fixed, to make sure that nothing has been missed. Where additional personal accounts are kept showing the state of the customer's account from year to year, as in the case of hire-purchase, or house purchase, the position is considerably simplified.

(*b*) Some installations make no provision for working back from the personal account to the summary sheet and to the receipt stub and this makes the auditor's duties difficult. Personally, I hold the view that the system is not a good one unless it is possible to do this. Nevertheless, it is not so easy to follow an account through as it is in the case of a bound ledger, and to minimise possible confusion it is desirable that the system of internal check should be such that the operations are verified as soon as they are carried out. The auditor should see that this is done and the possibility of the accounts being deliberately confused to hide a defalcation will thus be overcome.

(*c*) Discount sometimes presents a problem in balancing, but if it is treated and posted as carefully as cash I do not think any great trouble should be experienced. It is, of course, essential that the auditor should see that discount is not given to persons who have not paid their account

by the discount date. This may be a fruitful source of loss if not properly safeguarded.

(*d*) In the event of failure to balance the accounts, sectional balancing will prove useful in tracing where the error has occurred. Sectional balancing should be an essential feature of any mechanical billing installation.

(*e*) Certain adjusting entries may be necessary when alterations have to be made in pen and ink. These should only be made by a responsible official and noted in a book kept for the purpose, which should be thoroughly scrutinised by the auditor and reasons for the alterations verified.

(*c*) *Ledger Posting—Application to Prepayment Meter System.*—Ledger posting machines have been introduced for recording transactions relating to the collection of revenue from electricity and gas sold on the prepayment or slot meter system.

The system is designed to ensure that all meters are read and cash collected promptly and that the cash is properly accounted for. The meter inspector is handed a list of addresses from which cash is to be collected, and an official receipt book. On reading the meter and collecting the cash, he enters the meter state and cash collected on the carbon duplicate receipt and hands the top copy to the consumer. His cash is balanced on returning to the office with the total of the duplicates in the receipt book.

The next day the ledger cards—one for each meter—are posted from the receipts, the commencing reading of the meter being picked up from the card and the finishing reading from the receipt. The amount due is calculated and the cash posted and the overs and shorts automatically thrown out, the figures being simultaneously printed on a summary sheet from which it is possible to verify the meter readers' cash and obtain any statistical data required. By running through the ledger cards it is possible to see that the collection is being kept up to date.

The system is particularly useful from the audit point of view, as it provides a current independent check upon the meter reader, and, furthermore, the meter reader does not have access to the personal accounts, which has always been a source of fraud. A great deal of routine checking can be obviated if the auditor sees that the system is being properly carried out.

I think I have said sufficient to serve as an introduction to a discussion so far as income is concerned, and will briefly refer to the expenditure side.

EXPENDITURE.

Before dealing with mechanisation in this connection I might mention that the Ministry of Health have issued, following the Local Government Act, 1933, Model Standing Orders relating to payments and contracts to be adopted by local authorities.

The duties of the auditor in this connection are not specified, but it will obviously be his duty to see that the Standing Orders so far as accounts are concerned are properly carried out.

The auditor will also have to see that the statutory enactments relating to payments are carried out. Sect. 187 of the Local Government Act, 1933, provides as follows :—

(1) All payments to and out of the general rate fund of a borough shall be made to and by the treasurer.

(2) Except as otherwise expressly provided in this section, all payments out of the general rate fund shall be made in pursuance of an order of the council signed by three members thereof and countersigned by the town clerk, and the same order may include several payments :

Provided that the following payments may be made out of the general rate fund without an order of the council, that is to say, payments made—

(*a*) in pursuance of the specific requirement of any enactment ;

(*b*) in pursuance of an order of a competent court or of a justice of the peace acting in discharge of his judicial functions ;

(*c*) in respect of any remuneration of—

(i) the mayor ;

(ii) the recorder in his capacity either of recorder or of judge of the borough civil court ;

(iii) the stipendiary magistrate ;

(iv) the clerk of the peace, when paid by salary ;

(v) the clerk of the borough justices ;

(vi) any other officer or person whose remuneration is payable by the council ;

(*d*) in respect of the remuneration and allowances certified by the Treasury to be payable to the Treasury in relation to an election petition ;

(*e*) in respect of the remuneration certified by the recorder to be due to an assistant recorder, assistant clerk of the peace, or additional crier.

The usual procedure to carry out this requirement is for each committee to pass for payment its own bills and refer them to the monthly meeting of the council for confirmation where the order covering all the payments for the month is signed by three members of the council and countersigned by the Town Clerk. It is necessary, of course, to list all the bills for each committee to form a schedule to the order, and this is done in duplicate, one copy acting as an order on the corporation's bankers and one for office purposes, which is used as the credit side of the cash book. Several authorities have adopted the cheque writer for this purpose, which, as you are probably aware, prints the cheque at the same time as the schedule is typed, and by means of an adding attachment the total is automatically accumulated.

From the auditor's point of view this is particularly useful, as it ensures that the cheque, committee schedule and cash book all agree.

The mechanisation of the expenditure side of the accounts of local authorities has been carried out in some cases by the use of Hollerith or Powers machines, combined with a typewriter accounting machine for ledger posting. In other cases the Hollerith and Powers machines have not been installed, analyses being obtained from posting slips made out on an accounting machine and sorted by hand. Posting to the ledger accounts is done direct from the slips by the typewriter accounting machine.

A mechanised system necessitates the use of codes for each item of expenditure, and this may present some difficulty to an auditor until he becomes acquainted with their meaning.

The following system may be taken as an example :—

1. Bills due from the Corporation are received by the departments concerned, certified and passed to the accounting office.
2. The accountancy assistant checks the bills and codes them in accordance with the allocation made by the Corporation department.
3. The cheques and committee schedule are made out

from the bills by means of the cheque writer and called over to ensure their accuracy.

4. The bills are then passed on to the machine section, where cards are punched and verified, showing the particulars of the bill, the commodity supplied, the amount to be charged to the particular job or heading of expenditure, and the number of the job.

   If one bill is chargeable to several jobs, a separate card must be punched for each job.

5. A preliminary run through of these cards on the machine will prove that the total agrees with the total of the committee schedule. The cards are subsequently mechanically sorted and tabulated, and the total of the analysis so obtained will, of course, also agree with the committee schedule.

6. Posting to the ledger cards by means of the accounting machine is done from the Hollerith tabulation. The operator types in the particulars and posts the expenditure applicable to the job from the tabulation. Then the previous total for the job is picked up and the machine throws out a new balance, the previous total being repeated on the ledger card for purposes of proof.

7. The totals are transferred to the appropriate cash control, and the new cash balance thrown out and the pick up repeated. Mechanical proof of the accuracy of the picking up of the previous balances, posting and new balances is thus automatically obtained, as the accumulated totals, the amounts posted, and new balances accumulated in the machine, agree with the control account.

From this brief description of the system it will be seen that each step is checked as the work proceeds, and the possibility of errors remaining undetected for a considerable period is thus prevented.

The periods at which the cards are sorted and tabulated vary according to the wishes of the persons responsible. It is, of course, possible to accumulate the cards and only extract tabulations when periodical progress returns are required or at the end of the accounting period.

From the auditor's point of view the punched card system may present some difficulties where frequent tabulations are not made, as to all intents and purposes the punched cards are the accounts and they are not so easy to check as written or printed records; in addition to this, the auditor has no guarantee that the cards he has checked are the actual ones used in obtaining the tabulated analysis.

The analysis should therefore be designed so that reference can easily be made direct from the bill to the tabulation, and if this is done the auditor can follow the transactions through as easily as if they were hand-written in the usual way—perhaps more easily.

There is one important point with regard to the use of ledger cards instead of a bound book, and that is the danger of error or fraud by the extraction or loss of ledger sheets. As a safeguard against this, the stock of new ledger cards should be consecutively numbered and issued to the person in charge of the accounts by an independent person, who should obtain a receipt therefor. The auditor can then verify that all cards issued have been accounted for and can place his private mark on them and keep a record of the cards which should be there.

Accounts kept in this manner will terminate with the extraction of a trial balance, which is utilised to prepare revenue and other accounts, and balance sheet. In one authority I know of, the professional auditors have for some years placed their certificate on the printed abstract of accounts of the authority, no other record of the final accounts being kept.

WAGES AND STORES.

Considerable scope for use of machinery exists in the direction of wages and stores accounting.

In dealing with direct expenditure, the amounts spent on wages and stores respectively are charged to wages and stores control accounts. The former is subsequently cleared by transfer of expenditure to jobs in accordance with a tabulated analysis obtained by the punched card system. The stores control account is credited with stores issued, the value of which is charged to jobs in accordance with the analysis, the balance on the account being the value of stores on hand.

(*a*) *Wages.*—With regard to wages, the whole operation, including preparation of pay roll and tabulated analysis, may be done by the punched card system, and in some instances the card is also used as a time card in conjunction with a time clock.

The basis of the preparation of wages is the time sheet, which should be supplied to the department concerned by the accounting department weekly in time for distribution before the first day of the week. The men should enter their own time sheets as regards daily time worked on each job, and this should be checked by the timekeeper from time clock or other records, &c. The use of an addressograph machine in this connection can assist in preventing the inclusion of "dummy" men. Addressograph plates will be already cut for each workman on the books at the commencement of the week, and the time sheet for the following week will be prepared as to name and tally number from these after extracting the names of men who have been paid off. A certificate of the head of the department concerned should be obtained for all new men taken on, and all men finishing, and the addressograph plates altered accordingly, additional time sheets being prepared where necessary. If this is carried out, every time sheet should be prepared by addressograph, and no time sheet should be accepted by the accounting staff at the end of the week which has not been prepared in this way. This check is of course subsidiary to other checks to guard against dummy men, such as examination of insurance cards, witnessing the payment, &c.

The certificates of the departmental heads should be filed for production to the auditor, who should see that the system has been properly carried out.

After the time sheets have been extended by the accounting staff to show the total wages due and amounts chargeable to each job, they are passed on to the machine room where a separate card is punched for each man, showing his tally number and other particulars, the amount of wages and the job to which it is chargeable. If the man works on more than one job in the week, as he does more often than not, it is necessary to punch a separate card for each job. In addition to these cards, standard deduction cards should be punched with the man's tally number and showing the National insurance, superannuation, &c., deductions to be made each week.

The standard deduction cards are "married" to the other cards in the sorter and the pay roll run off from them by means of the tabulator.

After preparation of the pay roll the deduction cards are extracted by the sorter and kept for use next week, and at the same time the other cards are sorted under job numbers. The latter are then put through the tabulator again and the wages analysis prepared.

From the auditing point of view it is interesting to know that the total of the analysis and the total of the pay roll must agree by reason of the fact that they are

prepared from the same set of cards, but it would be much more useful to know that there is an automatic mechanical check on the amount payable to each workman. I am afraid it does not exist, and to safeguard the interests of the Corporation the auditor should insist that the work of preparation of the wages after receipt of the time sheet from the Corporation department concerned should proceed on the following lines :—

(*a*) The time sheets should be scrutinised to see that they are all addressographed, and properly certified by the timekeeper.

(*b*) Calculation of the total wages for each man and the amount chargeable to each job should be done by different persons.

(*c*) A third person should crosscast the amount chargeable to each job and agree it with the total wages.

(*d*) After the mechanical process already described has been carried out, the total wages on the time sheets should be called over with the gross wages column in the pay roll.

In this way it is possible (*a*) to minimise the risk of dummy men (incidentally, the use of standard deduction cards assists in this direction), (*b*) to safeguard against errors in calculations, and (*c*) to ensure that the mechanical process has been properly carried out.

If the auditor keeps an eye on the system so that no deviation from the regulations is permitted a considerable amount of routine checking may be avoided, it would, however, be fatal to allow any slackness to creep in, particularly where the preparation and payment of wages is concerned.

(*b*) *Stores.*—In a proper system for dealing with the receipt and issue of stores, receipts will be recorded on materials received notes or book and issues will be recorded on materials issue notes at the time of receiving or issuing the goods by the storekeeper. The stores ledgers and other records will be prepared by the accounting staff from the information contained on these notes. I attach particular importance to the separation of the duties of keeping the stock and keeping the stores ledger. The storekeeper's duties should be confined to looking after the stock. The keeping of the stores ledger is an accounting operation and should be treated as such. If this simple rule were always applied, I am sure that many defalcations arising out of the unauthorised disposal of stock would never have taken place.

The application of machinery to the posting of the stores ledger itself is probably only of use when cash values are entered. As the practice is now generally not to insert values, but to concentrate on quantities, I will not discuss this any further, except to say that if loose-leaf sheets or cards are used for the purpose, a strict control should be exercised over them.

With regard to issues from stock. The issue notes should be priced and extended, and checked by another person before being handed to the machine section for the punching and verification of cards.

The information usually punched on the cards is :—

1. Issue note number.
2. Main account number.
3. Job number.
4. Commodity number.
5. Quantity or weight.
6. Value.

After verification the cards are sorted in job number order and an analysis extracted on the tabulating machine. Posting to the financial ledger is made from this analysis in the same manner as I have previously described for direct expenditure.

It will be observed that there is no independent record to verify that the total of the analysis agrees with the total issues. It is therefore important that the issue notes should be properly checked, and that the punched cards should be carefully verified by a person other than the one who carried out the original operation.

At the end of an accounting period, the balance of the stores control account should agree with the physical stock. In large undertakings it is generally inconvenient to take stock of every item at a particular date, and it is becoming a practice to accept the book stock figures for balance sheet purposes, subject to a system of continuous stock-taking being instituted to ensure that every item of stock is verified periodically. The auditor should, of course, see that this is done, and occasionally take stock himself.

Obituary.

JAMES SHIMELL HANN.

Mr. James Shimell Hann, F.S.A.A., passed away on March 5th on his sixty-sixth birthday, after a long illness. Mr. Hann took honours in both the Intermediate and Final examinations of the Society of Incorporated Accountants, of which he became a member in 1902. For over thirty years he was in partnership with Mr. G. H. Lawrence, F.S.A.A., in the firm which in 1927, became Lawrence, Hann & Best, and practised at Finsbury Pavement House, Moorgate, London. Mr. Hann was well known and highly esteemed in Finchley, where he had lived for many years, and at the funeral service there was a large gathering of family mourners and friends, together with clients of the firm, his former partners, and a number of the staff.

EDWARD RIDGE SYFRET.

We regret to record that Mr. E. R. Syfret, F.S.A.A., died on March 7th at the age of 76. Mr. Syfret was the senior partner of the firm of E. R. Syfret & Co., Cape Town and Paarl,and had carried on practice in Cape Town since his admission to membership of the Society of Incorporated Accountants and Auditors in 1893. He was a member of the Committee of the Society's South African (Western) Branch from 1906 to 1920, and was widely known and esteemed in the accountancy profession in South Africa.

FORTHCOMING EVENTS.

April 2nd. *South Wales and Monmouthshire District Society.* Annual Dinner in Cardiff.

April 5th. *Belfast District Society.* At Belfast at 7.30 p.m. Students' Annual Meeting.

April 7th. *Swansea and South-West Wales District Society.* At Swansea at 6.30 p.m. Lecture by Mr. P. S. Thomas, M.A., on "The Creation and Control of Credit."

April 9th. *Birmingham District Society.* At Birmingham at 6.30 p.m. Lecture by Mr. J. Linahan, A.S.A.A., on "Executorship Law and Accounts."

April 14th. *Liverpool District Society.* At Leith. Visit to Sir John Holden's Fine Spinning Mills.

April 26th *Belfast District Society.* At Belfast at 7.30 p.m. Annual Meeting.

QUESTIONS IN PARLIAMENT.

Death Duties.

On March 9th, Sir W. DAVISON asked the Chancellor of the Exchequer whether he is aware of the general dissatisfaction at the unduly high valuations placed by Government valuers on the unrealisable assets of a testator when valuing for Death Duties; and whether, in fairness to the taxpayer, he will arrange that, in the case of disputed valuations, the Treasury will accept such assets in payment of Death Duties at the figure placed upon them by the Treasury valuer?

The CHANCELLOR OF THE EXCHEQUER (Mr. Chamberlain): I am not aware of any general dissatisfaction in this matter, and, as my hon. Friend will appreciate, there is a statutory right of appeal in cases where it is considered that a valuation is too high. I am not prepared to adopt the suggestion made in the second part of the question.

Sir W. DAVISON: Can my right hon. Friend say in what way the Treasury would be indemnified by taking over property in payment of Death Duties at the value which they themselves have put upon it?

Mr. CHAMBERLAIN: I should prefer that my hon. Friend put that question upon the Paper.

On March 23rd Sir WILLIAM DAVISON asked the Chancellor of the Exchequer the reason why the Treasury are not prepared to take over property in payment of death duties at the value which they themselves have placed upon it?

LIEUT.-COLONEL COLVILLE: My hon. Friend will appreciate that what the State requires for the purpose of meeting its annual cash expenditure is a cash receipt. I may add that a proposal of this kind was the subject of debate in this House on June 8th, 1932, upon an Amendment moved to the Finance Bill of that year, when it was negatived without a division.

Sir W. DAVISON: Is it not the fact that, if the Treasury knew that they would have to accept properties at the valuation which they themselves put upon them, the valuations would be very much lower; and is it not hard on the individual to insist of his paying cash when the Treasury know that the property in question will not realise the cash which they demand?

Mr. JOHNSTON: Would the Financial Secretary also consider whether he could take over land in payment of Death Duties at the value which the owners put on that land in the valuation roll?

LIEUT.-COLONEL COLVILLE: The answer to both supplementary questions is that it is money that we want, in cash.

Sir W. DAVISON: Is it not cash that the individual has to find, also?

Income Tax.

CAPTAIN STRICKLAND asked the Financial Secretary to the Treasury whether he is satisfied with the present method of assessing manual weekly wage-earners for income tax purposes on a half-yearly basis and whether, in view of the difficulty which is caused by this method in making claims for repayment when the total annual income falls below the minimum, he will consider the alteration of the system for that of an annual assessment?

The FINANCIAL SECRETARY TO THE TREASURY (Lieut.-Colonel Colville): The answer to the first part of the question is in the affirmative; the system has worked satisfactorily and I do not think that any change is called for. The difficulty to which my hon. and gallant Friend refers is readily met in practice.

CAPTAIN STRICKLAND: Is the right hon. Gentleman aware of the lack of knowledge on the part of these manual workers of the procedure to adopt in order to make their claims for repayment?

LIEUT.-COLONEL COLVILLE: The half-yearly assessment was adopted to suit the wage-earner, and I have no general evidence of complaint about it. In fact, apart from one letter which my hon. and gallant Friend sent me, I have no evidence of complaint at all.

Income Tax Remission.

LIEUT.-COMMANDER FLETCHER asked the Chancellor of the Exchequer under what authority the Commissioners of Income Tax compromise or remit claims for income tax.

Mr. CHAMBERLAIN: I am advised that the exercise by the Commissioners of Inland Revenue of a power of remission in cases where it is found in the course of collection that payment of the full claim cannot be obtained or cannot reasonably be enforced is inherent in the general powers vested in the Commissioners for the care and management of the revenue. In this connection I would refer the hon. and gallant Member to sect. 57 of the Income Tax Act, 1918, and sect. 1 of the Inland Revenue Regulation Act, 1890. I may remind him that all remissions of taxation are reported annually to the Comptroller and Auditor-General for the information of the Public Accounts Committee.

Double Taxation.

On March 9th, Mr. PEAT asked the Chancellor of the Exchequer what is the basis of the double taxation agreement between the United Kingdom and France; and what is the reason for the delay in ratification?

Mr. CHAMBERLAIN: The proposed agreement with France is concerned primarily with modifications of the liability of British companies to the French tax on dividends and with the making of arrangements, in accordance with the provisions of section 17 of the Finance Act, 1930, for relief from double taxation in the case of profits arising through agencies. The terms of the agreement have not yet been settled, but every effort is being made to bring the negotiations to a satisfactory conclusion.

Share-Pushing.

On March 9th, Mr. JOHNSTON asked the President of the Board of Trade whether he can give any estimate of the number of individuals who are engaged in running share-pushing enterprises in the City of London; whether he has received any report as to the estimated annual profits taken from the investing public by these individuals; and how many prosecutions for share-pushing frauds have been instituted during the past 12 months?

Mr. RUNCIMAN: The answers to the first two parts of the question are in the negative. With regard to the last part, I am informed by the Director of Public Prosecutions that since January 1st, 1936, six public prosecutions in connection with the matters referred to have been instituted and completed and that three such prosecutions are now pending.

Coal Royalties (Tribunal).

Mr. ATTLEE (*by Private Notice*) asked the Chancellor of the Exchequer whether he is in a position to make any statement with regard to the negotiations which have been proceeding with the Mineral Owners' Joint Committee on the compensation to be paid to the owners of coal royalties in the event of their unification?

Mr. CHAMBERLAIN: Negotiations have been proceeding for some time between His Majesty's Government and the Mineral Owners' Joint Committee, but I regret that it has been found impossible to reach agreement on the amount of the compensation to be paid in the event of the statutory unification of coal royalties. However, both parties are agreed that the proper basis of compensation would be the fixing of a global sum equivalent to the value

of the whole property to be acquired, which would be divided proportionately among the various owners, according to the relative values of their property. His Majesty's Government have therefore decided, in agreement with the Mineral Owners' Joint Committee, to appoint a tribunal to determine the value of the whole property concerned, on the basis of a sale in the open market by a willing seller. The members of the tribunal will be :—

Lord Justice Greene (Chairman),
Mr. Justice Clauson, and
Lord Plender.

With regard to the objects to be served by the Tribunal's decision, it is agreed that the Mineral Owners' Joint Committee will accept the decision as representing the compensation properly payable to the owners for the property in the event of His Majesty's Government proceeding with their present proposals for its acquisition. But it is also agreed that His Majesty's Government shall have the right at any time within six weeks after the delivery of the decision of the Tribunal to give notice to the Mineral Owners' Joint Committee that they are not prepared to accept the decision of the Tribunal, in which event the Government will not proceed with their proposals for the purchase of the property, except at some global figure determined by agreement between them and the Committee. If notice is not so given, the Committee will be entitled to assume that the Tribunal's decision is acceptable to His Majesty's Government and that they will introduce during the present Session of Parliament a Bill to acquire the property on the basis of the Tribunal's decision.

I am circulating in the Official Report a Treasury Minute, dated March 2nd, 1937, appointing the tribunal and specifying their terms of reference.

Mr. BELLENGER : Does that reply mean that, in view of the breakdown of negotiations, the Government's legislation for the unification of coalmining royalties will now be indefinitely postponed ?

Mr. CHAMBERLAIN : When the hon. Member has an opportunity of reading what I said, I think he will see that is not so.

Mr. T. WILLIAMS : May I ask whether, if the Government do accept the proposals of the tribunal, we are to understand that they will be beyond amendment in this House, and that the House will have to accept the proposals once the Government have accepted them ?

Mr. CHAMBERLAIN : I do not think it would be true to say that it would be out of the power of the House to amend those proposals, but I suppose that in some respects it might be out of the power.

Mr. WILLIAMS : May I ask whether, before any step is taken by the Government, they will safeguard the interests of this House at all events, and that whatever decision they may reach as a Government will not prejudice this House and the opportunity of this House to make amendments ?

Mr. CHAMBERLAIN : It is always possible for the House to reject a Bill if it disagrees with it.

Sir PERCY HARRIS : Would it be in order to move a reduced amount ?

Mr. CHAMBERLAIN : I do not think that is a question which should be addressed to me, but to whoever is in charge of the Bill.

Mr. DAVID GRENFELL : Are we to assume that the Government have already committed themselves to regarding the findings of the tribunal as an award in this case ?

Mr. CHAMBERLAIN : I explained what the arrangement was. The Mineral Owners' Joint Committee has agreed to accept the tribunal's award, but the Government have the right to say whether they will accept it or not.

Society of Incorporated Accountants and Auditors.

South African (Northern) Branch.

Annual Report.

The Committee submit their Report for the year ended December 31st, 1936.

During the year ten new members were admitted and ten transferred from other South African Branches.

The usual half-yearly examinations were held. In the month of May, 23 sat for the Final and 7 passed; 5 sat for the Intermediate and 2 passed ; and 3 sat for the Preliminary and 2 passed. In November, 19 sat for the Final and 8 passed ; 2 sat for the Intermediate and none passed ; and 5 sat for the Preliminary and 4 passed.

The Committee regret to record the death of Mr. T. A. J. White.

Under the bye-laws of this Branch all members of the Committee retire annually, and are deemed to be nominated for re-election.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to and promotion in the Membership of the Society have been completed since our last issue :—

ASSOCIATE TO FELLOW.

WALLER, CHRISTOPHER, 27, Fitzroy Square, London, W.1, Practising Accountant.

ASSOCIATES.

DAVID, OGLEY LEWIS, with F. Jennings & Co., Borough Chambers, Neath.

DAVIES, GEORGE HENRY LLOYD, with Deloitte, Plender, Griffiths & Co., 5, London Wall, London, E.C.3.

DIMMOCK, STANLEY GODFREY, with Nevill, Hovey, Smith & Co., 28, Victoria Street, Paignton.

GRIFFITHS, ALBERT EDWARD, with Hill, Vellacott & Co., Bank Chambers, 33, High Street, Deal.

GRIFFITHS, FREDERICK WILLIAM ORTON, with Maurice Thompson & Co., Victoria House, Southampton Row, London, W.C.1.

HOLDEN, ARNOLD RICHARD, with Nasmith, Coutts & Co., 78, King Street, Manchester, 2.

HOLLAND, LEONARD, with Robert Heatley & Co., 83, Brazennose Street, Manchester, 2.

KNOWLES, JOHN, with J. W. Davidson, Cookson & Co., 515, Martins Bank Building, Liverpool, 2.

LEACOCK, THEODORE ERNEST, with Bryden, Johnson & Co., Suffolk House, Laurence Pountney Lane, Cannon Street, London, E.C.4.

SLADE, NORMAN WILLEY, Treasurer's Department, West Riding County Council, County Hall, Wakefield.

TEDCASTLE, ALAN, with F. Griffith, Westmorland Chambers, 31, Stricklandgate, Kendal.

TONKIN, GEORGE NORMAN, with G. W. Bacon & Co., Norfolk House, Laurence Pountney Hill, Cannon Street, London, E.C.4.

TORGERSEN, THEODOR FRANK, with Roland Jennings & Co., 14, John Street, Sunderland.

WALKER, BRIAN SAMUELSON, formerly with Douglas, MacKelvie & Co., Sun Building, St. George's Street, Cape Town, South Africa.

Schedule E, Income Tax.

A LECTURE delivered to the Students' Section of the Incorporated Accountants' District Society of North Staffordshire by

MR. L. W. CAULCOTT,

Inspector of Taxes.

MR. CAULCOTT said: Before I proceed to the subject of my lecture this evening, I should like to acknowledge the compliment you pay me by your invitation to give a lecture on Income Tax, and to welcome this further opportunity of assisting the good relations which obtain in this area between Accountants and Inspectors of Taxes—relations which contribute in no inconsiderable measure to the smooth and efficient assessment and collection of a large part of our national income.

I must, nevertheless, at the outset make it clear that no official authority attaches to this lecture, and that any views expressed therein are my personal views only.

My subject to-night is Income Tax, Schedule E—the schedule which charges, in general, the emoluments of all kinds of employments and offices. The subject is one of increasing importance, partly owing to the growth of the limited liability company and consequent creation of directorships and other offices assessable under Schedule E, partly owing to the sweeping change of the basis of assessment made by the Finance Act of 1927 whereby the basis of Schedule E was closely related to the basis of Schedule D, and partly to the increase in the number of Schedule E cases which have of late been the subject of High Court decisions.

I propose to divide my lecture into five parts, as follows:—

(1) Assessment.
(2) Subjects of charge.
(3) Basis of assessment.
(4) Reliefs and deductions.
(5) Treatment of certain special classes of Schedule E taxpayers.

You will observe that I have not set aside a sub-division for the case law of Schedule E. That is because I shall quote and refer to the various cases in my amplification of the five sections I have enumerated.

ASSESSMENT.

I start, then, with Assessment under Schedule E. Now for assessment under Schedule E, statutory information in the form of returns is required from both employer and employee. Under section 105 (1) of the Income Tax Act, 1918, every employer is required, on receiving the statutory notice, to render a return of the names and addresses of, and all payments made to, all employees except those whose remuneration for the year does not exceed £125 and who have no other employment. This return is a two-fold one—a return for Schedule E purposes of what I might term the salaried officials, commonly known as the form 46, and a return for half-yearly purposes of the manual wage-earners, commonly known as the form H.9. The difference between these two returns will be explained in the section of my lecture dealing with the basis of assessment. Where the employer is a body of persons, *e.g.*, a company, the return is to be made by the secretary or other officer, by whatever name called, performing the duties of secretary, who is for this purpose deemed to be the employer.

As regards the employee, under section 43 (1) of the Finance Act, 1927, every individual who is required to do so by a particular notice must make a true and correct return of all the sources of his income and of the amount derived from each source, for the year preceding the year of assessment computed in accordance with the Income Tax Acts, the computation of income to be made by reference only to the year preceding the year of assessment. And under section 100 (1*b*) of the Income Tax Act, 1918, every person (the word person in income tax law does not necessarily mean an individual although it includes an individual) when required to do so by a general or particular notice, must render a return of the amount of the profits or gains arising to him from each and every source chargeable according to the respective schedules of the Income Tax Act. Moreover, under sub-section 4 of section 100, every person upon whom a particular notice is served must make a return of the income chargeable under Schedule D or Schedule E in the form required by the notice. Now, under sub-section 3 of section 43 of the 1927 Act, the form of these returns is prescribed by the Commissioners of Inland Revenue, known commonly as the Board of Inland Revenue, and the sub-section goes on to say that as far as possible the Board are to arrange that no person is required to make more than one return annually under section 43 (1). In these circumstances, the Board's practice is not to require a return under section 100 from an individual who makes a return under Section 43 (1)—in other words, an individual who renders a return of *all* sources of his income under section 43 (1) does not normally have to render a return of *particular* sources under section 100.

Now the Schedule E return made under section 43 (1) is familiar to you as the form 12, and I should like at this point to digress a little from the main subject of my lecture in order to point out the importance of the correct completion of the return on form 12. Some of the younger members of my audience may not have had the interesting but sometimes difficult task of explaining an income tax return to a client, and I feel that it would be helpful if I briefly explained the salient features of the form and its purposes. The return is in four sections—a statement of income not taxed at the source, a statement of income taxed at the source, a statement of charges on income, and a claim for personal reliefs. The first three sections are related to the year preceding that in which the return is due, and the last is related to the actual year in which the return is due. Thus the return is not a return of the statutory income of a particular fiscal year, but a statement of actual income and charges of the preceding year. This statement of ascertained facts the Revenue Department uses as a basis to which the Income Tax Acts are applied. In order that the statutory income of the year can be ascertained, and any necessary adjustments made for previous years, the return also requests particulars of any alterations in income not taxed at the source or charges that have taken place since the commencement of the preceding year. The return thus becomes the statement of total income from all sources which is required before personal reliefs can be given for the year in which the return is due, and so a form of claim to such reliefs is embodied in the return form. You will thus see how very important it is that the form is fully and correctly completed and how exceedingly helpful it is to the Department and to the taxpayer when the return is properly made.

To return to my subject. Schedule E assessments are in general made by the assessor under section 113 of the Income Tax Act, 1918, and are signed and allowed by the General Commissioners for the division under section 120 of the same Act. The exceptions to this general rule are as follows:—

(1) The assessments on emoluments paid by or through Public Departments and certain other bodies are

generally made under the jurisdiction of Commissioners appointed departmentally under sections 68 and 69 of the 1918 Act.

(2) The assessments on the emoluments of officials and pensioners of any railway company in the United Kingdom are made by the Inspector of Taxes and signed and allowed by the Special Commissioners. It is interesting to note that under Rule 7 of the Rules of Schedule E, 1918 Act, these assessments are made on the railway company itself, which is empowered to deduct the tax chargeable from the emoluments.

(3) The assessments on the emoluments of any office or employment in a municipality may be made under the jurisdiction of Commissioners appointed from the Mayor and Corporation, under section 70 of the 1918 Act. This right is exercised only in the City of London and, to a restricted extent, in Liverpool.

(4) All Schedule E assessments in Northern Ireland (except departmental assessments) are made by the Inspector of Taxes and signed and allowed by the Special Commissioners under section 189 of the 1918 Act.

The place of assessment under Schedule E is governed by Rule 18 of the Rules of Schedule E, Income Tax Act, 1918, as amended by section 18 of the Finance Act, 1922. Under these provisions, persons chargeable under Schedule E, other than the officials of a Public Department who are assessed departmentally under the jurisdiction of Departmental Commissioners as already mentioned, may be assessed either at the place of employment or of ordinary residence. In practice, the convenience of both the Revenue and the taxpayer is served by the following general principles :—Ordinarily, assessments are made at the head office or branch office of the employers, but school teachers, police officers and similar employees are assessed at the place of employment, while insurance agents, commercial travellers who act for more than one concern, and the like are assessed at the place of residence.

Appeals against Schedule E assessments are within the jurisdiction of the General Commissioners for the division in which they are made, with the following exceptions :—

(*a*) Appeals against departmental assessments are within the jurisdiction of the Special Commissioners.

(*b*) Appeals against local assessments may be made under the provisions of section 19 of the Finance Act, 1922, to the Special Commissioners instead of to the General Commissioners.

So much for the actual assessment under Schedule E.

SUBJECTS OF CHARGE.

I now come to the second section of my lecture—the subjects of charge, which I will first of all enumerate and then discuss. The subjects of charge are :—

(1) The emoluments of any public office or employment of profit within the United Kingdom ;

(2) The emoluments of any other office or employment exercised either in the United Kingdom or elsewhere by a person resident in the United Kingdom or exercised in the United Kingdom by a person not resident in the United Kingdom ;

(3) Annuities and pensions payable by the Crown or out of the public revenue other than annuities charged under Schedule C ;

(4) Leave pay and pensions, &c., payable in the United Kingdom by any Public Department otherwise than out of the public revenue to persons who have been employed abroad as Government officials and are chargeable as residents, together with pensions or annuities payable to their dependants so chargeable ;

(5) Voluntary pensions ;

(6) All other pensions received by residents in the United Kingdom and which are not exempted or chargeable under Schedule D Case V or Rule 7 of the Miscellaneous Rules of Schedule D or taxed by deduction as annual payments.

For the charge in respect of the emoluments of any public office or employment, we have to refer to the general charging section of Schedule E as amplified by Rule 6 of the Rules of Schedule E, Income Tax Act, 1918. The offices chargeable are enumerated in Rule 6, and the emphasis throughout the rule on the words "public" and "office" was very clearly brought out in the case of *Great Western Railway* v. *Bater* (*ex parte Hall*) reported at 8 T.C., 235. The rather caustic comment of a learned Judge that Mr. Hall, who was a railway clerk on the staff of the G.W.R., did not hold a public office but merely sat in one, was the high light of the case, which decided that a railway clerk was not assessable under Schedule E as the holder of a public office or employment of profit. An office was defined, during the course of the case, as a substantive permanent position, filled by successive holders and existing apart from the holder of the office. Mere employment, it was said, on assigned duties, does not of itself create an office. Hence the term "public office or employment of profit" has come to be regarded as referring to distinctive positions involving duties other than those of a subordinate character. Such a position as a directorship of a company is clearly within the term, and it is interesting here to know that for Schedule E purposes there is no distinction between private and public companies—this follows from the case of *Watson* v. *Roberts*, 11 T.C., 171.

The employments and offices other than public employments and offices, which are referred to in the second category of this section of my lecture, are those which were transferred to Schedule E by the Finance Act of 1922 following the decision in the *Bater* case. Prior to that year such employments were chargeable under Schedule D, and it is important to note that the charge is still laid by the wording of the Schedule D charging section which I shall quote *in extenso* at a later point in the lecture, although by section 18 (1) of the 1922 Finance Act the assessments are made under Schedule E. This unusual situation—what one might call a partial merger of two separate income tax schedules—was the subject of an ingenious plea by Counsel in the case of *McKenna* v. *Eaton-Turner*, decided as recently as last October in the House of Lords. I shall mention the facts and decision of this case at a later stage in my lecture. To use the words of Lord Atkin : "There is one other matter that arises on this case. It is said that section 18 of the Finance Act, 1922, transfers the profits or gains chargeable under Schedule D to Schedule E, and says that the rules applicable to that Schedule shall apply accordingly ; and then it is said that when you look at the rules applicable to Schedule E you will find Rule 6, which says that 'the tax shall be paid in respect of all public offices and employments of profit within the United Kingdom,' and therefore it is said that those rules cannot apply, and although you may have transferred this employment from Schedule D to Schedule E, you have not found a home for it in Schedule E, and it must wander between earth and heaven because, apparently, it is not in Schedule D, neither is it in Schedule E. I think that is much too technical a view and an incorrect view of the construction. I think the rules of Schedule E

are intended to be applied so far as they are applicable. Once you have found that this particular profit was chargeable under Schedule D, then I think it is transferred to Schedule E and the assessment is properly made in those circumstances."

From this you will appreciate that there is still a distinction in law between the emoluments of a public office or employment referred to in the Schedule E charge and those of the other employments referred to in the Schedule D charge. This distinction becomes very material when questions of residence in the United Kingdom or of employment out of the United Kingdom arise, and on these matters I cannot, I think, do better than quote an extract from the report of the Income Tax Codification Committee dated April, 1936. One of the salient features of the report was the Committee's proposal to sweep away all schedules and cases and to devise a new classification of income more intelligible, it said, to the taxpayer, under which a broad distinction between United Kingdom income and foreign income was recommended. The Report goes on to say at paragraph 80 :—

"The division of income into United Kingdom income and foreign income necessitates the determination of the circumstances in which income derived from employments is to be treated as derived from a United Kingdom or from a foreign source ; there is no guidance to be found in the existing Acts."

"Before 1922, if the office or employment held or exercised was a public office or employment, tax was charged under Schedule E. In other cases tax was charged under Schedule D, the general charging provision being that tax should be charged ' in respect of the annual profits or gains arising or accruing . . . to any person residing in the United Kingdom from any . . . employment . . . whether the same be . . . carried on in the United Kingdom or elsewhere ' (see Rule 1 (*a*) (ii). But this general charge is consistent with a charge being made either under Case II which provides that " the tax shall extend to every employment by retainer in any character whatever," or under Case V, which charges foreign possessions."

"In 1922, by section 18 of the Finance Act of that year, profits or gains arising from employments chargeable under Schedule D, ' other than the profits or gains chargeable under Case V of Schedule D,' were transferred to Schedule E. The exception effected by the words quoted is a clear indication that Parliament contemplated the possibility, at any rate, of profits and gains from some employments being chargeable under Case V, but as to the circumstances in which they are to be so chargeable the Acts are silent.

"The case law on the subject is meagre. It is practically limited to the case of a single individual—Mr. Pickles. Mr. Pickles had entered, in England, into an agreement with an English company to take charge, in Africa, of the company's business there, and to devote the whole of his time to the business of the company. His salary and commission commenced as from the date of his sailing for Africa and terminated on the day upon which he gave up charge of the African business. Mr. Pickles had, at all material times, a home in England in which his wife and family lived, and in which he was in the habit of residing when in England. Two attempts were made to charge Mr. Pickles—one for the years 1906-07 and 1907-08, the other for the year 1919-20. The only alteration in the circumstances which had occurred between the earlier years and the later year was that, in the earlier years one-half of Mr. Pickles' salary was paid to his wife in England and the other half to Mr. Pickles either in Africa or England, whereas in the later year the whole remuneration was paid by the company into a banking account in England on which his wife had the power of drawing. In the first case, *Pickles* v. *Foster*, 6 T.C. 131, it was sought to charge Mr. Pickles as the holder of a public office under Schedule E of the Act of 1842 (for that Act was at the time still in force), but he was held not to be liable on the ground that a public office, the duties of which were performed abroad, was not within sections 146 and 147 of the Act of 1842, unless the office was one which, though exercised abroad, was constructively exercised in the United Kingdom. In the second case, *Pickles* v. *Foulsham*, 9 T.C. 261, it was sought to charge Mr. Pickles in respect of a foreign possession under Case V of Schedule D of the Act of 1918 (for that Act had in the meantime superseded the Act of 1842). Again it was held that Mr. Pickles was not liable. The grounds for the decision in the House of Lords varied, some of their Lordships being of opinion that this particular form of employment did not constitute a foreign possession, and others that, though it did constitute a foreign possession, there was no element of remittance (upon which alone tax is charged) in view of the fact that the remuneration was entirely paid in this country. But Lord Cave, in the course of his speech, said : " I do not doubt that (to take two simple instances) a doctor residing in England and practising in France only, or a mining engineer having a residence here and wholly employed by a Spanish mining company in Spain, might be held to have a foreign possession and to be assessable under Case V." The only other relevant case is that of *McKenna* v. *Turner* which came before the King's Bench Division in December, 1934, and in which the decision has since been affirmed by the Court of Appeal (as I mentioned before, in the House of Lords decision, which upheld the decisions in the Courts below, was given last October). In that case Mr. Eaton-Turner, who was resident in the United Kingdom, had entered into an agreement with a British company to act for it as mines manager in West Africa. No part of his work or duties, according to the findings of the Commissioners, fell to be performed or was performed in the United Kingdom ; by arrangement, the main part of his remuneration was paid into a banking account in the United Kingdom. It was held that Mr. Eaton-Turner's employment fell within the charge to tax under Schedule D, para. 1 (*a*) (ii) and Case II, and that by virtue of section 18 of the Finance Act, 1922, it was brought within Schedule E, under which schedule he had been correctly assessed.

"As no clear guidance on the point at issue was to be gathered from the case law, we made enquiries as to what was the practice with regard to employments other than public employments. We were informed that the practice of the Board, based on their interpretation of Rule 1 (*a*) (ii) and (iii) of Schedule D, and the decision in *Pickles* v. *Foulsham*, is as follows :

"A. *Residents.*

"(i) Where the duties are wholly or partly performed in the United Kingdom, the full emoluments are charged under Schedule E ;

"(ii) Where the duties are wholly performed abroad—

(*a*) the full emoluments, if the emoluments are normally received, wholly or in part, in the United Kingdom, are charged under Schedule E ;

(*b*) the emoluments, if wholly received abroad, are, so far as they are remitted to the United Kingdom, charged under Case V of Schedule D.

An exceptional receipt of emoluments in the United Kingdom, *e.g.*, when the employee is on leave here, is not treated as involving liability under Schedule E. (It is to be noted that the decision in *Pickles* v. *Foulsham* drew no clear distinction between employment under a United

Kingdom employer and employment under a foreign employer; in practice, the rule above stated under (ii) (*a*) is applied only to service under a United Kingdom employer, a person in the service of a foreign employer who, though resident in this country, performs his duties wholly abroad, being charged under Case V and not under Schedule E, wherever his emoluments are received.)

"B. *Non-Residents.*

"(i) Where the duties are wholly or partly performed in the United Kingdom, the emoluments, to the extent to which the duties are performed in the United Kingdom, are charged under Schedule E.

"(ii) Where the duties are wholly performed abroad, there is no liability."

It is significant to find that the Codification Committee's recommendations on this aspect of taxation leave the present practice unaffected save for one or two very minor exceptions, involving only a very small number of cases.

Before I leave this category let me briefly refer to the important cases of *Barson* v. *Airey*, 10 T.C. 609, and *Proctor* v. *Ryall*, 14 T.C. 204. In the first case a company which had power under its Articles to remunerate directors for extra services performed abroad, voted to the chairman of directors remuneration on a time basis for his services while on two visits to China on the company's business. This remuneration was above and beyond the remuneration which he received as chairman of directors. He claimed that the extra services were performed abroad, and were independent and quite distinct from his office and duties as chairman of directors. The Courts held that the services were rendered and the remuneration received in his capacity as director, and they confirmed the assessments under Schedule E. In the second case a director of a British company was resident with his family abroad, but came to London once a month to attend the directors' meetings. It was held that his office was an office in the United Kingdom, and that he was liable under Schedule E on the whole of the emoluments. From these cases emerges the broad principle that membership of a board of directors which meets in this country constitutes the holding of a public office within the United Kingdom, whether the board is that of an ordinary British company or the local board of a foreign company incorporated and controlled abroad. Moreover, it follows from *Barson* v. *Airey*, where the appellant was abroad for more than the whole of one income tax year, that occasional or repeated absences from board meetings are not considered to affect the liability on the whole of the emoluments. *Per contra*, membership of a local board which meets abroad, even of a company incorporated and controlled in the United Kingdom, does not constitute the holding of a public office within the United Kingdom. Hence a member of such a board who is not resident in this country is not assessable, and a member resident in this country is assessable under Schedule E or Schedule D, Case V, according as to whether the company is incorporated here or abroad, and as to whether the remuneration is received here or abroad, as I have previously shown.

The third category into which I have divided the subjects of charge contains annuities, pensions and stipends payable by the Crown or out of the public revenue of the United Kingdom, and these are specifically charged by the general charging section of Schedule E. Such pensions, &c., are assessed departmentally by Commissioners appointed for Departmental purposes. This category needs no elaboration, I think, as the charge and subject are both quite specific.

For the fourth category we must refer to section 17 of the Finance Act, 1923, under which all emoluments, pensions, or annuities payable in the United Kingdom, by or through any public department or officer or agent of the Government, otherwise than out of the public revenue, to persons who are or have been employed on Government services outside the United Kingdom, and all pensions or annuities payable to the dependants of such persons, are chargeable under Schedule E where the recipients are chargeable as resident in the United Kingdom. Under this section is charged the leave pay of officials in Government Service abroad paid in this country, but it is worthy of note that High Commissioners, Agents-General, and their staffs are exempt from income tax under section 19, Finance Act, 1923, and section 26, Finance Act, 1925.

My fifth category of the subjects of charge under Schedule E is voluntary pensions now specifically charged under section 17 of the Finance Act, 1932. This section was rendered necessary by the House of Lords' decision in the case of *Stedeford* v. *Beloe*, 16 T.C. 505, that a voluntary pension paid by an employer to an ex-employee was not assessable to income tax. Until this case was decided, such voluntary pensions were regarded as liable to tax equally with pensions payable under contract, and the section was designed to avoid the serious inequalities in the incidence of taxation to which the decision would have given rise had the distinction between contractual and voluntary pensions been allowed to stand. Sub-section (1) of section 17 of the 1932 Finance Act is directed to the cases of voluntary pensions which fall directly within the scope of the *Stedeford* v. *Beloe* decision. It provides that such pensions, when paid by an employer to an ex-employee or to a relative or dependant of an ex-employee, shall be deemed to be income of the recipient for all income tax purposes. In the ordinary case the charge falls under Schedule E, but in the case of a voluntary pension paid by an employer abroad to a person in this country the liability falls under Rule 2 of Case V of Schedule D, *i.e.*, on the amounts actually remitted to the United Kingdom. This follows the basis applicable in the case of similar pensions which are contractual. Sub-section (2) of section 17 provides that the annuities and pensions payable out of the public revenue, or through any public department, *i.e.*, those pensions, &c., referred to in the charging provision of Schedule E and in section 17 of the 1923 Act, include pensions, &c., paid voluntarily or capable of discontinuance, and is designed to remove any possible doubt that might have arisen under the *Stedeford* case as to the position in regard to pensions payable to retired members of the Home Services, or to retired members of Dominion and Colonial Services who are resident in this country.

The last of the categories into which I have divided the subjects of charge is a "sweep-up" category, and covers all other pensions which are received by persons resident in the United Kingdom, and which are not exempt from tax, or chargeable under Schedule D, or taxed by deduction. These other pensions include superannuation or similar allowances due under statutory or contractual obligation, and such miscellaneous pensions as those payable under the Widows', Orphans' and Old Age Contributory Pensions Acts, whether to voluntary or to compulsory contributors. Types of pensions not regarded as income for tax purposes are wounds and disability pensions referred to in section 16 of the Finance Act, 1919. Pensions chargeable under Schedule D include pensions received direct from a source abroad, and chargeable under Rule 2 of Case V, Schedule D; pensions from any institution in India chargeable under Rule 7 of the Miscellaneous Rules of Schedule D, and pensions or annuities paid out of an approved superannuation fund assessed by direction of the Board of Inland Revenue under Case VI

of Schedule D by the authority of section 32 (2), Finance Act, 1921. Pensions taxed by deduction are those constituting annual payments within the meaning of Rule 19 or Rule 21 of the rules applicable to all Schedules, Income Tax, 1918.

Before I leave this part of my lecture I must point out that special considerations arise with regard to the employment of United Kingdom residents in the Irish Free State, and the employment of Irish Free State residents in the United Kingdom. You will remember that as from 1926-27 certain modifications of the Income Tax Acts operate in connection with the Agreement with the Irish Free State in regard to Double Income Tax. The special modifications relating to employments are as follows :—

1. Where income arises to a United Kingdom resident from an employment exercised in the Irish Free State in such circumstances that he is chargeable under Case V of Schedule D, the basis of assessment is to be the same as if the income had arisen in the United Kingdom, *i.e.*, the Schedule E basis.
2. Where income arises to an Irish Free State resident from an employment exercised in the United Kingdom such income is not chargeable to United Kingdom income tax.

Finally, I feel I ought not to close this section of my lecture without a reference to the report of the Codification Committee on pensions, the assessment of which is particularly material to a lecture on Schedule E.

In paragraph 86 of its report the Committee states that it found itself faced with a perplexing problem in deciding under what provisions of the existing law pensions are charged, and goes on to say in paragraphs 86 to 88 that "The ordinary conception of a pension is that of a payment made at regular intervals in respect of past services. It may, or may not, be paid in pursuance of some legally binding obligation. On the one hand, such a payment seems, as a "pension," to be clearly within the provisions of Schedule E and so to be chargeable by way of direct assessment upon the recipient; on the other hand, if legally exigible, it appears equally clearly, as "an annual payment," to be within Schedule D and the provisions of General Rules 19 and 21, and so chargeable by way of deduction of tax upon payment.

"Official pensions have always been under Schedule E, but in other cases, except those of voluntary pensions, the existing Acts seem to provide alternative methods of charge. . . Upon investigation we found that in practice all pensions not legally exigible are treated as 'pensions' directly chargeable under Schedule E, and that pensions legally exigible are treated as annual payments under Schedule D and General Rules 19 and 21, except that when paid by a business concern they are allowed as expenses to be deducted in computing profits and charged upon the recipient when the recipient is resident in the United Kingdom. This concession does not, however, extend to cases in which the recipient is resident outside the United Kingdom, where the machinery of direct assessment and charge would be likely to be ineffective.

"The broad result is that in practice, all voluntary pensions and all pensions by traders (except those payable by traders to persons resident abroad) are chargeable by direct assessment, while pensions legally exigible from a person who is not a trader are charged by way of deduction of tax at the source."

It only remains to add that the Committee, in its recommendations, has substantially reproduced the existing situation.

Now throughout my exposition of the subjects of charge under Schedule E and of the relevant charging sections of the Acts, I have made mention of the terms "office," "employment" and "emoluments." I defined the word "office" at an earlier stage when I mentioned the case of *G.W.R. v. Bater*, and when I drew your attention to the distinction in law between the public offices and employments referred to in the Schedule E section and the other employments referred to in the Schedule D section which were transferred to Schedule E by the 1922 Finance Act. I think therefore that at this stage I ought to define more precisely the other two terms—"employment" and "emoluments."

Neither Statute Law nor Case Law gives a positive or complete definition of the term "employment" as used in the Income Tax Acts, though Case Law is helpful in explaining it.

At Common Law and in ordinary language it denotes continuing occupation under the direction of an employer, and it may be observed that the Acts make specific mention of weekly wage earners employed by way of manual labour, and employment by way of retainer; the term "employed by retainer" was analysed and discussed in the *Bater* case which I have already mentioned. It was pointed out that a person engaged to do a definite thing and not merely things of a definite class and who may do that thing in his own time and his own way, is not employed by retainer, but if he is engaged to do things of a definite class under direction as to manner and time as and when required by the employer, and with a right to payment whether or not required to do a particular thing, he is employed by retainer. Again, in the case of *Partridge* v. *Mallandaine*, 2 T.C. 180, "employment" was compared and contrasted with "vocation," which was shown to be the stronger term, analogous to "calling." Another dictum which bears on the point is contained in the case of *Robbins* v. *Inland Revenue Commissioners* (which was an Excess Profits Duty case)—"It is a strong factor in coming to the conclusion that a man is a servant, that he has to devote his whole time to the employer, he cannot do business for anybody else, and has a right to the extension of his agreement if he does devote his whole time to his employer."

The broad principle which, I think, emerges from the foregoing is that an employment normally obtains where there is a relationship of master and servant as opposed to the relationship of principal and agent or of client and professional adviser. The relationship of master and servant postulates the existence of a contract or agreement, verbal or written, whereby power is given to the employing party not only to direct what work the employed party is to do but also the manner in which he is to do it and the time he is required to devote to it.

The term "emoluments" as used in the Income Tax Acts was held, in the case of *Machon* v. *McLoughlin*, 11 T.C., 83, to be practically synonymous with "remuneration," and includes every type of remuneration such as salaries, wages, fees, overtime pay, bonus, commission, perquisites, gratuities and tips. In elaborating this definition I propose to pass rapidly in review the more important of the cases dealing with emoluments in cash, emoluments in kind, and voluntary allowances and gifts, together with payments of certain types.

Emoluments in cash, even though in part alienable under contract of employment, are liable in full whether such alienation takes place before or after receipt of the emoluments. Thus the High Court has held that the gross receipts are chargeable notwithstanding :—

(*a*) The compulsory deduction of a sum appropriated under the contract of service towards a thrift fund—*Bell* v. *Gribble*, 4 T.C. 522. It was in this case that the argument that the income meant money in the hands of the person assessed was rejected.

(*b*) The reservation, by an employer, of unfettered discretion as to allocation of benefits under a superannuation scheme—*Bruce* v. *Hatton*, 8 T.C. 180.

(*c*) Contractual deductions for value of board and lodging or washing—*Cordy* v. *Gordon*, 9 T.C. 304, and *Machon* v. *McLoughlin*, 11 T.C. 83.

(*d*) Compulsory expenditure by a detective officer on plain clothes—*Fergusson* v. *Noble*, 7 T.C. 176.

(*e*) Deferment of payment of a portion of the salary under the contract of service—*Walker* v. *Reith*, 43 Scottish Law Reports, 245.

While certain of these cases have been modified by recent legislation as to deductions and allowances for expenses—which I shall reach at a later stage in this lecture—the principle of the assessability of the gross emoluments remains unaltered. Moreover, where an employer bears on behalf of an employee and by virtue of the employment any pecuniary liability of the employee, such a payment constitutes an assessable emolument, whether the payment is made direct by the employer or through the employee. This was emphasised by the recent case of *Nicoll* v. *Austin* 19 T.C. 531, under which the payment by a company of the expenses of upkeep, &c., of the managing director's residence were held to be profits of his office as managing director and assessable on him under Schedule E. The payment by an employer of income tax or surtax in respect of an employee's remuneration is pre-eminently an additional emolument liable to tax and it is immaterial whether the payment is made voluntarily or under a contract. There are two cases on this point—*N.B. Railway Company* v. *Scott*, 8 T.C. 332, and *Hartland* v. *Diggines* 10 T.C. 247. In the first case there was a contract to pay and in the second the payment was voluntary, but in both cases the tax so paid on the employee's behalf was held to be an assessable emolument.

Emoluments in kind are liable when convertible into money by the recipient, but not otherwise. The test is concisely stated in the case of *Machon* v. *McLoughlin*, already referred to—"If a person is paid a wage with some advantage thrown in, you cannot add the advantage to the wage for the purpose of taxation unless that advantage can be turned into money." A comparison of two cases—one old, one new—will make the point clear. The benefit derived from being obliged to occupy a house rent-free brings in nothing which can be described as income, and in *Tennant* v. *Smith*, 3 T.C. 158, where a bank manager was required by his employers to reside on the bank premises, the annual value of his residence was held not to be part of his income. On the other hand a privilege granted to a director, in return for services rendered, of applying for unissued shares of a company at a value less than the market value of the shares was held in the case of *Weight* v. *Salmon*, 19 T.C. 174, to be money's worth and its value—represented by the difference between the market value of the shares and the price actually paid—assessable to income tax.

A voluntary allowance or gift does not, as a rule, constitute assessable income in the hands of the recipient. A payment may, however, be liable to income tax under Schedule E as a profit of an office even though it may be voluntary on the part of the persons who make it. The test is whether, from the standpoint of the recipient, it accrues to him by virtue of his office ; if it does, it matters not whether it was voluntary or compulsory on the part of the persons who made the payment. A number of cases make this quite clear and enunciate a general principle. In *Herbert* v. *McQuade*, 4 T.C., 489, a grant from the Queen Victoria Sustentation Fund to a clergyman, not as a personal gift but in augmentation of his stipend, was held liable. In *Poynting* v. *Faulkner*, 5 T.C., 145, a grant from a Ministers' Stipend Augmentation Fund was held liable although regard was had to the ability of the congregation to make adequate provision for their minister and the amount of his income. In *Cooper* v. *Blakiston*, 5 T.C. 347, a collection made for a clergyman on Easter Sunday for his personal use as a free-will offering to him personally was held assessable where it was given to him substantially in respect of his services as incumbent. In the case of *In re Strong*, I.T.C. 207, an annual Christmas gift raised by voluntary subscriptions was also held liable. In *Mudd* v. *Collins*, 9 T.C. 297, a director of a company negotiated the sale of a branch of the company's business and received a substantial sum as commission for his services in negotiating the sale. The High Court held that if an officer is willing to do something outside the duties of his office and receives a consideration for so doing, the consideration is part of the profit of the office and is assessable. In *Radcliffe* v. *Holt*, 11 T.C. 621, extra remuneration given to a director by the shareholders of a company, even though called a gift, was held to be liable. All these cases show that where a voluntary payment is received by virtue of an office or employment held by a person, such a receipt is assessable to tax in his hands.

An employer can, however, make a solitary gift to his employee without rendering the gift liable to taxation under Schedule E. A gift of an exceptional kind, such as a testimonial or a contribution for a specific purpose, *e.g.*, to provide for a holiday, or a subscription paid because of the personal qualities of the particular holder of an office may not be a voluntary payment for services, but a gratuitous payment and not assessable. There are certain cases which can be effectively contrasted, in this connection, with those I have just enumerated. In *Turton* v. *Cooper*, 5 T.C. 138, Easter offerings were held to be not liable because it was found that they were not given as additional remuneration for services but on account of the personal poverty of the incumbent. In *Turner* v. *Cuxon*, 2 T.C. 422, a grant from the Curates' Augmentation Fund in recognition of faithful service, and not in respect of a particular curacy, was held to be a personal charitable gift and not assessable. In *Cowan* v. *Seymour*, 7 T.C. 372, a person who had acted as secretary of a company without remuneration was appointed liquidator, and after the liquidation had been completed. a sum of money remained in hand after discharging all liabilities. Part of this sum was voted to the liquidator, after his office had terminated, by the shareholders. The Court inferred that the payment was made as a testimonial or tribute for what he had done *after his services were over* and not as a payment for those services, and held that he was not chargeable to tax in respect of the sum voted to him. In *Beynon* v. *Thorpe*, 14 T.C. 1, where a sum of money was voted to a retiring director of a company as a personal gift it was found that the payment was a gift moved by the remembrance of past services already sufficiently remunerated as services in themselves, and was held not to be income assessable to Income tax in his hands.

It will be appreciated that the border-line between some cases may be very fine, but the principles are clear, namely, that :—

(*a*) a voluntary payment received by virtue of an office is assessable, while

(*b*) a voluntary payment, although indirectly connected with the circumstances that a recipient is the holder of an office or employment, made primarily as a token of personal esteem or as a contribution to a specific private purpose, is not assessable.

The proper treatment of such cases will normally depend on the correct interpretation of the ascertained facts.

There are one or two other special payments, &c., which are deserving of mention. Salary in lieu of notice is not regarded as assessable; neither in the normal case is a lump sum payment of compensation for loss of office or for breach of contract for services, though where compensation for loss of office is in reality remuneration for services rendered, as was found in the case of *Henry* v. *Foster*, at 16 T.C. 605, it is an assessable emolument.

Shares allotted for services rendered are regarded as assessable broadly because :—

(*a*) they arise out of office or employment, and

(*b*) they can, of course, be converted into cash and can therefore be clearly distinguished from payments in kind not so convertible.

A rent-aid allowance is chargeable but the value of board or lodging provided by an employer is not chargeable.

Basis of Assessment.

I now come to the third part of my lecture—the basis of assessment under Schedule E. Up to 1922-23 there were two bases of assessment for employments—the public offices and employments were charged under Schedule E on the actual emoluments of the year of assessment, and the other employments were charged under Case II of Schedule D on the average emoluments of the three years preceding the year of assessment. From 1922-23 to 1927-28 all employments were chargeable under Schedule E on the actual emoluments of the year of assessment. The present basis of assessment is governed by section 45 of the Finance Act, 1927, under which the basis of Schedule E was closely related to that of Schedule D and indeed, with certain exceptions, was made to follow identically the basis laid down for Cases III, IV and V of Schedule D by the 1926 Finance Act. The normal basis is laid down by sub-section (1) of section 45 of the 1927 Act, and is the amount of the total assessable emoluments of the year preceding the year of assessment—commonly known as the preceding year basis. Certain exceptions are made by the proviso to sub-section (1) which deals with those classes of cases which in the nature of things do not lend themselves to a change of basis, and excepts them from all the provisions of the section in regard to basis. The most important exception is the weekly wage-earner class, which continues to be assessed half-yearly on the basis of the actual wages of the year of assessment. In these cases it is desirable that the demand for tax should follow as quickly as possible the receipt of wages.

At this point I can explain the difference between the two returns required to be made by an employer—the form 46 for the salaried employees and the form H.9 for the manual wage-earners—which I mentioned at the outset of my lecture. The distinction between the two returns is this—the salaried employees fall within the charge under Rule 1 of section 45 of the Finance Act, 1927, whereby the normal basis is the preceding year basis, whereas the manual wage-earners fall within the charge under Rule 2 of Cases I and II of Schedule D (although that rule is deemed to be a rule of Schedule E under section 18 (2), Finance Act 1922), whereby the basis is the current year basis. Hence the return of salaries on form 46 is a return of the emoluments of the year preceding the year of assessment, and the return of the wages on form H.9 is a return of the actual wages of the two half-years in the year of assessment.

The other classes excepted from the change of basis are people who are temporary visitors to this country, *e.g.*, colonial officials on leave, foreign theatrical performers, &c.; in the case of these intermittent visitors, the current year basis is the only practicable basis for assessment.

It will be appreciated that the change over from current year to preceding year gave rise to cases of hardship, and to meet them a special provision was contained in sub-section (3) of section 45. Under this provision a taxpayer whose emoluments were on the downward trend could obtain a measure of relief by claiming to postpone the change of basis in his case for two years. As notice of claim had to be given by June 30th, 1929, the section is now of academic interest only, but I have brought it to your notice as an example of the legislature's concern for the unfortunate taxpayer who may be adversely affected by new legislation—I might even call it a "tempering of the wind to the shorn lamb"!

Sub-sections 4 and 5 prescribe the basis of assessment in the initial and final years of an employment. The basis in both instances follows the basis of Schedule D, as the computation in the initial years is the same as for Cases III, IV and V of Schedule D, and the computation of the final years is the same as for Cases I and II of Schedule D. In these sub-sections are contained two options—one for the taxpayer in the initial years of assessment and one for the Revenue in the final years. The complete basis may be summarised as follows :—

Normal.

Remuneration of the year preceding the year of assessment.

Initial Years.

First fiscal year (to April 5th): actual remuneration of the period from date of commencement to the following April 5th.

Second fiscal year : actual remuneration of fiscal year unless the employment commenced on April 6th in the preceding year, in which case the remuneration of the preceding year.

Third fiscal year : the remuneration of the preceding year.

The taxpayer's option consists of a claim to relief whereby the assessment of the third fiscal year, or the second fiscal year if the employment commenced on April 6th in any year—in other words, the assessment of the second *full* year—may be reduced to the actual remuneration of that year should it be less than the remuneration assessed. Notice has to be given within twelve months after the end of the year of assessment.

Conversely the Revenue cannot raise an additional assessment for the second full year if the actual remuneration of that year is greater.

Final Years.

Last year : actual remuneration of the period commencing April 6th prior to and ending on the date of cessation.

Year preceding the last year : remuneration of the year preceding the year of assessment unless the remuneration of the actual year is greater, in which case the Revenue's option may be exercised and an additional assessment raised to bring the assessment to the amount of the actual remuneration. Conversely the taxpayer cannot claim relief for the penultimate year if the actual remuneration is less.

An example will perhaps make clear the practical effect of the sections I have outlined. Assume that Mr. So-and-so takes up a position as chief accountant to a company on January 1st, 1930, and resigns on June 30th, 1936, on appointment to the board of a different company. His remuneration has been as follows :—

Period ended April 5, 1930, £200.
Year " " 1931, £1,000.
" " " 1932, £800.
" " " 1933, £900.
" " " 1934, £1,000.
" " " 1935, £1,100.
" " " 1936, £1,200.
Period " June 30th, 1936, £300.

The assessments under Schedule E are as follow :—

1929-30, £200 (actual remuneration of the year of assessment).

1930-31, £1,000 (actual remuneration of the year of assessment, the first year not being a full year).

1931-32, £1,000 (remuneration of the year preceding the year of assessment. For this year the assessment can be reduced to £800—the actual remuneration of the year of assessment—under the "taxpayer's option." Had his actual remuneration been £1,200, the Revenue could *not* have increased the assessment).

1932-33, £800 (normal basis).

1933-34, £900 (normal basis).

1934-35, £1,000 (normal basis).

1935-36, £1,100 (normal basis. As, however, Mr. So-and-so ceases to hold his office on June 30th, 1936, 1935-36 is the penultimate year and so the "Revenue's option" comes into play, and the assessment is increased to £1,200, the actual remuneration of the year of assessment. Had the actual remuneration been £1,000, Mr. So-and-so could *not* have claimed to have the assessment reduced).

1936-37, £1,200 but reduced to £300, the actual remuneration of the year of assessment.

On his appointment to the board of the other company, Mr. So-and-so is assessed afresh in respect of his new office and the "commencing" provisions of Schedule E are, of course, applied.

It is important to remember that the test of cessation for Schedule E is not the cessation of remuneration but the cessation of the office or employment. This is very clearly brought out by the cases of *Henry* v. *Galloway* (17 T.C., 470) and *Oliver* v. *Chuter* (18 T.C. 570). In the first case, Mr. Galloway, who was the chairman of directors of a limited company, had undertaken not to accept any remuneration unless the company's debenture interest was earned, and for 1930-31 received no remuneration, although he continued to act as chairman and director. In the second case, Mr. Oliver, who was a director of a limited company, agreed, in view of unfavourable trading conditions, to waive altogether his remuneration for the year 1932-33. In both cases the Courts held that the office of profit had not ceased merely because in the year of assessment no remuneration had been received and that it made no difference whether the waiver was contingent (as in *Galloway's* case) or absolute (as in *Oliver's* case). Mr. Justice Finlay said, in the first case, that while an office of profit was not easy to define, it must be an office to which remuneration is in some way or other attached ; at the same time, that did not mean that in any particular year there must necessarily be any remuneration.

Now, it will be appreciated that in certain circumstances the strict application of the cessation provisions might conceivably cause hardship to a taxpayer who surrenders one office on appointment to another office and thus loses the benefit of the "preceding year" basis of assessment. To remedy this, section 26 of the Finance Act, 1935, was passed. Briefly speaking, this section gives the taxpayer the option, provided certain main conditions are satisfied, of ignoring a change of office so far as assessment to tax is concerned, *i.e.*, the option of treating the employment as a continuing one with the consequent assessment on preceding year basis throughout. The conditions to be satisfied are as follow :—

(1) The old and new offices must be given up and entered upon at the same time.
(2) The taxpayer's average monthly net emoluments from the new office for the first twelve months must not exceed by more than 20 per cent. his average monthly net emoluments from the old office for the last twelve months.
(3) Both old and new offices must be substantially full-time occupations.
(4) Notice must be given within eighteen months after the end of the year of assessment in which the change of office takes place.

RELIEFS AND DEDUCTIONS.

The fourth division of my lecture is devoted to the reliefs and deductions which refer particularly to liability under Schedule E. Now, I have already mentioned various relieving provisions of the Acts which are, so to speak, complementary to the assessing provisions, but there are some other reliefs laid down by the legislature which I must now review.

Section 45 (8) of the Finance Act, 1927, extends to Schedule E the "error or mistake" relief prescribed for Schedule D by section 24 of the Finance Act, 1923. Under this provision, relief may be claimed within six years after the end of the year of assessment in respect of an assessment which is proved to be excessive by reason of an error or mistake in the return or statement made for the purposes of assessment. The words "error or mistake" cover "sins" of omission as well as "sins" of commission and errors arising from a misunderstanding of the law, as well as erroneous statements of fact. At the same time, this relief is, of necessity, one which must be narrowly construed in practice, and so it must be borne in mind that no relief is admissible :—

(*a*) Where the basis on which the return or statement was made was that generally prevailing at the time it was rendered ;
(*b*) Where the assessment was not based on the return or statement ;
(*c*) Where no return or statement has been made.

It follows from (*a*) that a decision of the Courts given after the date of the return gives no title to the relief.

The relief allowable is determined by the Board of Inland Revenue (in practice by the Inspector of Taxes), but an appeal against the Board's decision lies to the Special Commissioners and—unlike other ordinary applications for relief—a further appeal lies to the High Court where a point of law is involved.

Another well known Schedule D relief was extended to Schedule E by section 16 of the Finance Act, 1925. Under this section an employee who uses for the purposes of his employment any plant or machinery belonging to him, such as a motor car, is entitled on due claim to a deduction from the assessment of any year of such an amount as the Commissioners consider to be just and reasonable as representing the diminished value of the plant, &c., during the year of assessment by reason of wear and tear. He is also entitled to a deduction in respect of the cost of replacement of any such plant, &c., which has become obsolete. The computation of wear and tear and obsolescence is made in accordance with Rules 6 and 7 of Cases I and II of Schedule D, and is, therefore, so familiar to you that I need not say any more about it, much to my own "relief," for this lecture is becoming of sizeable proportions.

A very special relief which impinges on Schedule E is that contained in section 29 of the Finance Act, 1927.

As you are doubtless aware, a trader who incurs losses in his business may under section 33, Finance Act, 1926, carry forward his losses for allowance against future assessments on profits subject to statutory conditions and time limits; but where a business changes hands, the losses of the old proprietor cannot be claimed by the new proprietor for purposes of the relief. Now in the case of a business transferred from an individual proprietor or partnership to a company in exchange for shares in the company, the legal ownership of the business entirely changes, but while the former owner holds his shares he retains what is virtually a proprietory interest in the concern. Section 29 of the 1927 Act is designed to give relief to such a taxpayer who, through the conversion of his business into a company is thereby deprived of relief in respect of past losses to which he would otherwise be entitled.

Two main conditions apply:—

(1) The former owner of the business must have received the shares in the company as the sole or main consideration for the transfer of the business.
(2) Relief is granted only so long as the former owner holds the shares and the company continues to carry on the business.

The relief is made personally to the shareholder who suffered the loss and is set off against the income he receives from the company either as remuneration or as interest and dividends. The set-off is made first of all against the remuneration assessed under Schedule E and any balance remaining to be set against the taxed income received from the company is claimable by way of repayment. The limitation of this carry-forward is the same as in section 33 of the 1926 Act, *i.e.*, six years.

So much for reliefs. Now what of deductions? The statutory provisions governing deductions are contained in sections 208 and 209 and in Rules 1 and 9 of Schedule E, Income Tax Act, 1918. Sections 208 and 209 are provisions of a general nature. Under section 208 the provisions of one Schedule are applicable to tax under other schedules if they are not repugnant to the provisions of that schedule and so by inference deductions allowable under Schedule E do not include expenditure which is inadmissible according to the rules of any other schedule unless specifically covered by the rules of Schedule E. Section 209 enacts that only deductions expressly enumerated in the Act are allowable and deductions for capital employed or for loss sustained in any trade, &c., are specifically forbidden. Under Rule 1 of Schedule E, a deduction is allowable in respect of any duties or other sums *bona-fide* paid and borne by the recipient of the emoluments and charged thereon by virtue of any Act of Parliament. Under Rule 9 of Schedule E, if the holder of an office or employment is necessarily obliged to incur and defray out of the emoluments thereof the expenses of travelling in the performance of the duties of the office or employment, or of keeping and maintaining a horse to enable him to perform the same, or otherwise to expend money wholly, exclusively and necessarily in the performance of the said duties, there may be deducted from the emoluments to be assessed the expenses so necessarily incurred and defrayed.

Strictly speaking, the words "wholly" and "exclusively" might be held to prohibit the deduction of any *part* of an expense where the expense is not *as a whole* incurred in the performance of the duties, but it is the department's practice not to stand on the strict letter of the law in this connection and to allow any definite part or proportion of the expense which can be regarded as within the terms of the rule. Where an employer makes a contribution towards the expenses necessarily incurred by an employee in connection with his employment, such contribution is excluded from the computation of the amount of expenses allowable. Such a contribution is not regarded as forming part of the employee's emoluments, but where a payment is made to an employee as additional remuneration, although described as in consideration of expenses incurred by him, it falls to be included in the assessment subject to a correct allowance for expenses. The computation of expenses is to be made, under section 45 (2) of the Finance Act, 1927, by reference to the expenses of the period upon the emoluments of which the assessment is based.

The "duties, and other sums chargeable on the emoluments of an office by an Act of Parliament" referred to in Rule 1 of the Schedule E Rules, were the subject of interesting comment in the cases of *Beaumont* v. *Bowers*, 4 T.C. 189, and *Bell* v. *Gribble*, 4 T.C. 522. Under the first case, a percentage deduction made from the salary of a clerk to the Guardians under the Poor Law Officers' Superannuation Act, 1896, was held to be a sum chargeable on the salary within the meaning of Rule 1, but doubt was thrown on this decision in the second case where contributions to a thrift fund established by a corporation in pursuance of powers obtained under an Act of Parliament were held not to fall within the meaning of the Rule. The earlier decision was, however, not treated as over-ruled, and the practice that had grown up of allowing superannuation contributions was given statutory approval by section 32 of the Finance Act, 1921, and section 31 of the Finance Act, 1922. Briefly, under these sections contributions by employees to superannuation funds approved by the Board of Inland Revenue and those towards the expenses of providing allowances or gratuities on retirement or death where made in pursuance of any public general Act of Parliament are allowable as deductions.

Rule 9 of the Rules of Schedule E is the authority for the allowance of the vast majority of the expenses claimed as deductions from emoluments assessable under Schedule E, and it is very important to observe the emphasis which is laid on the words "wholly, exclusively and necessarily in the performance of the duties." There are many decided cases in which this phrase has been, speaking colloquially, "turned inside out." Travelling expenses have been a real bone of contention, and a number of cases have established the principle that such expenses incurred in getting to or from the place where the duties of the office or employment are performed, are not incurred in the actual performance of the duties. In *Cook* v. *Knott*, 2 T.C. 246, a solicitor residing and practising in one town and holding an office in another town was not allowed the expenses of travelling between the two places. In *Revell* v. *Directors of Elworthy Bros.*, 3 T.C., 12, the directors of a company were not allowed the expenses of travelling from their residences to the place of meeting of the company. In *Andrews* v. *Astley*, 8 T.C., 589, a storekeeper who, owing to the shortage of houses, was compelled to reside at some distance from his work, was not allowed the expenses of maintaining a motor cycle to get to his work. In *Phillips* v. *Keane*, which was an Irish Free State case, a school teacher, who was unable to find a residence less than five miles from his school, was not allowed the expenses of travelling to the school in a trap. In *Ricketts* v. *Colquhoun*, 10 T.C., 118, a barrister residing and practising in one town and holding the office of Recorder in another town, was not allowed the expenses of travelling from one town to the other to attend Quarter Sessions. In *Nolder* v. *Walters*, 15 T.C., 380, an aeroplane pilot was not allowed the expenses of upkeep of a car to carry him between the aerodrome and his residence. On the other hand, necessary travelling expenses are allowed in the case of an employee who has

itinerant duties or who is required to perform his duties in a succession of places, so that he must travel from one to the other. A dictum in *Ricketts* v. *Colquhoun* is of interest in this connection: "Members of Parliament are allowed their travelling expenses as a deduction on the footing that they have an office the duties of which are exercisable in two places."

Removal expenses are somewhat analogous to travelling expenses, and in the case of *Friedson* v. *Glyn Thomas*, 8 T.C. 302, the expenses of removal to take up new duties were held to be inadmissible as deductions.

Expenses incurred by an employee to qualify or equip himself for his employment or to put him in a position to exercise his employment have also been held by the Courts to be inadmissible deductions. In *Simpson* v. *Tate*, 9 T.C. 314, allowance was refused for subscriptions paid to professional societies where membership was not an essential condition of the employment. Under this case, too, the cost of professional literature and similar expenditure which enables an employee to keep himself qualified for the performance of his duties cannot be allowed. In *Bowers* v. *Harding*, 3 T.C. 22, the cost of a domestic servant employed in order that both husband and wife might exercise employments was held inadmissible.

Further emphasis that the expenses, to be allowable for Schedule E, must be incurred in the performance of the duties is exemplified by the case of *Magraw* v. *Lewis*, 18 T.C. 222, where costs of litigation in an unsuccessful action against a former employer had been deducted from the employee's pension, but he was held to be assessable on the gross amount of the pension; and by the case of *Eagles* v. *Levy*, 19 T.C. 23, where legal expenses incurred in recovering remuneration were held to be inadmissible deductions. Legal expenses were also concerned in the case of *Smith* v. *Eden*, 19 T.C. 110, where the taxpayer claimed to deduct from his Schedule E assessment the expenses incurred by him in a law suit in connection with the purchase of his house. Mr. Smith got very short shrift from Mr. Justice Singleton, who dismissed his claim with the terse remark: "It had nothing to do with his duties."

One other case is in point here. In *Parker* v. *Chapman*, 13 T.C. 677, a company director claimed to deduct from his assessment that portion of his remuneration which was applied in payment of new shares which he agreed to take up in order to assist the company over a period of depression. He failed to convince the Courts either that the sums applied in payment of the shares were not part of his emoluments or that they were expenses due to be deducted from his gross remuneration.

Thus the case law relating to the deductions of Schedule E, indicate that the rules are strictly construed and that the test is always the same—whether the expenses are incurred "wholly, exclusively and necessarily in the performance of the duties."

SPECIAL TYPES OF SCHEDULE E TAXPAYERS.

I come at last to the final division of my lecture in which I propose to deal with certain special types of Schedule E taxpayers. I cannot attempt to give you an exhaustive catalogue of the various classes, and must confine myself to a selection of the most interesting. I have already mentioned two special classes—the employees of railway companies, whose emoluments are assessed by the Special Commissioners and chargeable on the respective companies which are empowered to deduct the tax charged out of the emoluments; and those, like myself, in receipt of official emoluments, who are assessed by Departmental Commissioners and whose tax is paid by deduction from salary—an Inspector of Taxes, alas, cannot get cheap income tax! Another special class is that of clergymen and ministers of any religious denomination. Clergymen, &c., are assessable under Schedule E in respect of all emoluments, except where they are taxed by deduction or assessed under Schedule A, such as tithe rentcharge, glebe, &c. Their expenses, apart from those covered by the previous sections of my lecture, have special mention in Rule 2 of the general rules of the Income Tax Act, 1928, under which deductions may be made for:

(*a*) Any sums of money paid or expenses incurred wholly, exclusively and necessarily in the performance of the duties as clergyman or minister;

(*b*) A proportion, not exceeding one-eighth, of the rent paid in respect of a residence, any part of which is used mainly and substantially for the purpose of the duties as clergyman or minister.

Now as regards sub-section (*a*) the Courts held, in the case of *Lothian* v. *Macrae*, 2 T.C. 65, that voluntary contributions by a minister towards the stipend of his assistant minister were not allowable deductions. In *Jardine* v. *Gillespie*, 5 T.C. 263, allowance was refused for the cost of claiming an augmentation of stipend, and in *Charlton* v. *C.I.R.*, 27 S.C.L.R. 647, for the cost of purchase of books. Communion expenses, on the other hand, and travelling, &c., expenses, which are either part of a minister's parochial duties or enjoined on him by his ecclesiastical superiors, are admissible expenses. As regards sub-section (*b*) only "rent" is specifically mentioned, but the allowance is in practice extended to the due proportion of rates, heat, light, &c.

Commercial travellers, agents and similar employees who are required to bear the travelling and hotel expenses incurred in the performance of their duties are allowed a reasonable deduction for such expenditure, but the allowance for subsistence is naturally limited to the excess of the expenditure over the ordinary cost of living at home. Having regard to the growth of this class of taxpayer, and to the changing conditions of their mode of travelling one can almost visualise in a future Finance Act a provision that will substitute the word "car" for the word "horse" in Rule 9 of the Schedule E rules!

Seafaring employees are, of course, in a class by themselves, and the question of residence and the place of exercise of the employment involve special considerations. The maintenance of a place of abode in the United Kingdom is of great importance, as was shown in the cases of *In re Young*, 1 T.C. 57, and of *Rogers* v. *Inland Revenue*, 1 T.C. 225. The place of employment involves consideration of the situation of the ports between which the ship, on which the employee is serving, sails or trades.

To close my lecture, may I contrast the position of a professional cricketer with that of a professional footballer in regard to what are commonly termed "benefits." The distinction between them is drawn by those two interesting cases, *Reed* v. *Seymour* (the cricketer's case) reported at 11 T.C. 625, and *Davis* v. *Harrison* (the footballer's case) reported at 11 T.C. 707. Seymour had no contractual agreement with the Kent Cricket Club in regard to a "benefit," but Harrison did have an agreement with the Everton Football Club in regard to his "benefit." The cricketer's benefit was held to be in the nature of a personal gift and not assessable, the source being his admirers among the public and not his employers. But the benefit of the footballer, which was guaranteed by his employers in his agreement of service with them, was held to be outside the category of gifts and assessable to tax. The "benefits" of professional footballers are regarded as earned during the qualifying period of service of five years or less, and the amount received is allocated to those years and the liability spread back accordingly.

This "spreading" is peculiar to professional footballers owing to the special terms of the normal club agreement.

There are other classes of Schedule E taxpayers, of which I could discourse at length, but consideration of time and your patience forbid my doing so, and I must bring this lecture to an end. I hope I have been able to show you the importance of the subject and to indicate in some small measure the nature of its peculiar problems, and I hope very much that I have made the lecture instructive and interesting.

Reviews.

The "Verisimpul" TSM Cash Book. *Published by The "Verisimpul" Account Book Co., Ltd., Bank Chambers, 4, Market Place, Kingston-on-Thames.* (56 *pp. Price* 10*s., carriage paid.*)

This is a second and improved edition of an analysed cash book designed for use by traders, shopkeepers and merchants, &c., carrying on small businesses. The idea of the book is to provide all requisite particulars for the preparation of a profit and loss account and balance sheet apart from debtors, creditors and stock, the figures relating to which would have to be ascertained at the end of the accounting period. The analysis columns bear headings corresponding to the usual impersonal accounts, and specimen entries are given applicable to (*a*) the case of a business where all cash takings are not banked and sundry cash payments are made out of the till, and (*b*) the case of a business where all cash takings are banked intact daily. At the end of the book instructions are given for the benefit of those who have little knowledge of book-keeping. The book is well produced on good paper and substantially bound. With a little practice any intelligent person should be able to carry out the instructions.

Higher Business Correspondence. *By Reginald Skelton. London: Sir Isaac Pitman & Sons, Ltd., Parker Street, Kingsway, W.C.* (238 *pp. Price* 6*s. net.*)

The idea of the author of this book is to provide examples of letters, good and bad, the procedure being to show by a series of amendments how a letter drafted in somewhat crude form may be improved. This is supplemented by advice as to style and substance, clearness and precision of language, the necessity of brevity and the use of tact. There is also a chapter giving an analysis of a typical letter, supplemented by advice as to punctuation and paragraphing, and hints on composition. Altogether it is a useful book to place in the hands of anyone responsible for business correspondence.

Economics for Commercial Students and Business Men. 12*th Edition. By Albert Crew. London: Jordan & Sons, Ltd., Chancery Lane, W.C.*2. (392 *pp. Price* 5*s. net.*)

This book has been partly rewritten, although the general form and substance remains as before. Mr. Crew's endeavour has been to state and illustrate economic theories simply and clearly, and special attention has been given to the requirements of professional bodies, including the Society of Incorporated Accountants and Auditors, the Institute of Chartered Accountants, and the Chartered Institute of Secretaries. Questions from these examining bodies are added at the end of the chapters for the purpose of testing the reader's knowledge. The work is supplemented by a new and comprehensive index.

Oldham's Guide to Company Secretarial Work. *8th Edition. By G. K. Bucknall, A.C.I.S. London: Sir Isaac Pitman & Sons, Ltd., Parker Street, Kingsway, W.C.*2. (252 *pp. Price* 3*s.* 6*d. net.*)

Clerks and others concerned with the secretarial work of Joint Stock Companies will find much useful information in this book, which explains in simple language, supplemented by forms, the numerous matters that have to be dealt with in a company's office. There come under review all such matters as correspondence and filing, the procedure in relation to allotment and transfer of shares, notices, resolutions and minutes of meetings, the company's books of account, and the procedure relating to increase and reduction of capital, &c.

District Societies of Incorporated Accountants.

BIRMINGHAM.

On February 26th, members of the Leicester District Society visited Birmingham as the guests of the President and Committee of the Birmingham District Society.

Mr. A. W. Watson, F.S.A.A., President of the Birmingham District Society, welcomed the Leicester members. A tour of the counting house and works of Cadbury Bros., Ltd., at Bourneville proved both enjoyable and instructive, and the party were entertained to tea as the guests of the company.

A visit was then paid to the new Birmingham Hospital Centre at Edgbaston. Captain J. E. Stone, M.C., F.S.A.A., Secretary of the Birmingham Hospital Centre, was unable to conduct the party owing to illness, but the services of his representatives were much appreciated.

In the evening the Committee of the Leicester District Society were entertained to dinner by the President and Committee of the Birmingham Society at the Queen's Hotel.

LIVERPOOL.

A lecture on "Business Statistics" was delivered on March 4th by Mr. H. W. Robinson, B.Sc., Leverhulme Research Scholar in Applied Statistics at the London School of Economics. The discussion was opened by Mr. C. Hewetson Nelson, J.P., F.S.A.A.

A Members' Dinner was held after the meeting. The President of the District Society (Mr. T. T. Plender) presided on both occasions. The guests included Mr. E. B. Orme (Chairman of Martins Bank), Mr. H. Picton Jones (Vice-Chairman of the Liverpool Chamber of Commerce), Mr. J. M. Furniss (General Manager of Martins Bank), and Mr. T. J. Benjamin (Registrar of the County Court).

SOUTH WALES AND MONMOUTHSHIRE.

(CARDIFF STUDENTS' SECTION.)

A party of 37 Students visited the Dowlais works at Cardiff of Guest, Keen, Baldwins Iron and Steel Co., Ltd., on March 17th, by kind permission of the officials. The party was divided into groups and conducted over the extensive works which, including two wharfs, covers 110 acres. The various processes connected with the production of iron and steel were explained in detail, the interest of the members being centred mainly in the washery, coke ovens, furnaces and rolling mills. The tour lasted more than three hours.

The appreciation and thanks of the Students' Society for the privilege granted and for the kindness of the officials has been conveyed to the Works Manager of the company.

Incorporated Accountants' Manchester and District Society.

ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' Society of Manchester and District was held in the Midland Hotel, Manchester, on March 19th. The PRESIDENT of the District Society (Mr. Henry Smith) was in the chair, and the principal guests included Mr. R. Wilson Bartlett, J.P. (President of the Society of Incorporated Accountants), Alderman Joseph Binns (representing the Lord Mayor of Manchester), Alderman G. W. Sands (Deputy Mayor of Salford), Mr. W. Gorman, K.C. (Recorder of Wigan), Mr. J. Lees-Jones, M.P., Mr. J. M. Gibson (Manager, Westminster Bank Limited) and Mr. Roger N. Carter (President of the Institute of Chartered Accountants).

The CHAIRMAN, proposing the toast of "The Cities and Trade of Manchester and Salford," said that to-day we were emerging from depression, and optimism abounded. He hoped it would continue, along with wise government and business prudence. In the industrial recovery Incorporated Accountants had played no small part. They acted not only as auditors but also as advisers, and they had given assistance in evolving modern administrative methods which had helped industry not only to weather the depression, but to put itself once more upon a sound competitive basis. In that way the profession of accountancy had gained a unique position in the modern industrial machine, and the depression had compelled industry to set its house in order and to introduce new ideas.

Alderman JOSEPH BINNS, who acknowledged the toast on behalf of Manchester, said the achievements of the Manchester and District Society were indeed remarkable. Its first secretary, elected so long ago as 1886, remained its secretary until twelve months ago. That was, indeed, a remarkable record. He noticed in reading a history of the District Society that it had played a most important part in the work of the Parent Society. One Manchester member had been on the Council for 49 years and another for 50 years. He referred to Mr. Frederic Walmsley and Mr. Arthur E. Piggott. That was the most marvellous and consistent record of service of which he had ever heard in connection with any organisation.

Alderman G, W, SANDS, responding on behalf of Salford, said he had the pleasure of attending the celebration of the District Society's jubilee last year. He had read with great interest the history of the Society during the past fifty years, and he hoped and believed that in the next fifty years it would be able to equal its achievements for the industry and commerce of the two cities.

Mr. W. GORMAN, K.C. (Recorder of Wigan) proposed the toast of "The Society of Incorporated Accountants." The Society, he said, was a society of exactness. Every now and again he sent to a member of the Society certain documents which always seemed to come at awkward times but with remarkable frequency, and he always put a note on them saying: "Will you please be good enough to let me know if these are in order." By return of post he generally got the reply: "These are quite in order." There was always a delightful note of optimism in the letter of reply, for it always began: "These are quite in order, and the amount may be paid on January 12th." What a wealth of meaning there was in the words "may be paid." Theirs was a great Society. He believed that it was becoming more and more necessary that men in trade and industry should have at their disposal trained accountants to help and guide them. If there was one man on earth of whom he was personally afraid it was the man who styled himself the collector of income tax. He would face anything rather than an interview with that man. But it was important that men in trade and industry should have the advantage of the skill and training that members of the accountancy profession were able to give. More and more was trade being run on small margins, and more and more was it necessary that the accountants should assist those who were in trade and industry to keep on strict, sound financial lines. But that was only a part, and perhaps not the most important part of the accountant's work. Not only should the accountant be a man skilled in figures, not only should he be a man able to advise, but he should be a man who brought, along with his skill and his trained intelligence, the tradition of membership of an association such as the Society of Incorporated Accountants. That was extremely important. A man might be most strictly correct; but that was not sufficient. It was because a Society like theirs had given to its members the standing of a great tradition, the standing of membership of a great profession, that he rejoiced to have the opportunity of proposing the toast of the Society of Incorporated Accountants. He was honoured to be able to couple with the toast the name of the President. Mr. Wilson Bartlett brought to Manchester and District, and to the North, the goodwill of other local Societies throughout the country. His presence that night brought stimulus to the spirit of the Society, and strength to the tradition of their profession.

Mr. R. WILSON BARTLETT (President of the Society of Incorporated Accountants) said his first duty was to express the thanks of all the members for the very kind, able and extremely generous way in which Mr. Gorman had proposed the toast. He was very glad that during his period of office as President of the Parent Society he had been privileged to attend two of the Manchester functions. He would never forget the wonderful jubilee gathering of the Manchester and District Society, and the enthusiasm which they all showed on that occasion. It might be interesting to refer to something that was said by Alderman Binns about the pioneers of their Society in Manchester. He reminded them that it was in the year 1886 that the first meeting was held at which their District Society was founded, and that it was also in 1886 that a similar meeting was held at which another influential body of accountants—the Institute of Municipal Treasurers and Accountants—came into being. Thus in the year 1886 great pioneer work was done in Manchester in the realm of accountancy. On this occasion he was more than pleased to be able to extend a very warm welcome to his friend and colleague, the President of the Institute of Chartered Accountants—Mr. Roger N. Carter. Mr. Carter was no mean citizen of Manchester, and he was sure that Mr. Carter's presence on that occasion was a token of the happy relations which existed between the two parent bodies. The popular idea of accountancy—as suggested by Mr. Gorman—was that its methods were precise, exacting, cold, and calculating, and that its work did not lend itself to the exercise of the gift of imagination. That was probably true, within limits. But in his view the work of accountancy in his highest forms called for the exercise of a trained imagination capable of making and of realising opportunities. At the same time, he was not going to pretend that accountancy lent itself to the gift of prophecy, such as certifying future profits, or to the exercise of imagination of the poetic variety. Some few weeks ago he was present when Mr. Roger Carter was making an after-dinner speech, in which he made the statement that the accountant did

not figure to any considerable extent in literature. It might therefore be appropriate to say that he had at last found a poet who had written a few lines on the hardship of accounting :—

Never ask of money spent
Where the spender thinks it went ;
Nobody was ever meant
To remember or invent
What he did with every cent.

The poet's principles might perhaps be applied to household accounts. He was afraid, however, that those principles of accountancy as they occurred to the poet would not go very far with shareholders of limited companies, or with officials of the Inland Revenue, and he certainly could not commend the poet's idea of accountancy to embryo Incorporated Accountants. In general, the accountant had to deal with matters of fact, and not with matters of conjecture. Sometimes he had to be very definite in expressing his opinion, and because of this definite attitude, he was afraid, many people regarded him as a self-opinionated sort of fellow. He was very glad indeed to come to Manchester at a time when both industry and commerce showed considerable improvement on the position that had existed for a number of years. The nation was facing a tremendous problem in endeavouring to meet the needs of defence, the requirements of industry, and the development of social security, and to avoid an inflationary tendency in the money market which would have very unfavourable results. But the problem of spending and saving, whether from the personal or the national point of view, had taken on a new aspect. Such considerations as when to spend, when to borrow, when to invest, and how to invest, how to spread the capital, and in what parts of the country to invest, were all inter-related questions. The savings and resources of the country were enormous, and they provided an available reserve upon which the Government could draw by borrowing during the next five years. So it would appear that we must cheerfully face the fact that the expenditure of fifteen hundred million pounds in five years, partly from loan and partly from taxation, could not fail to have an effect upon the economic position of the country and upon money rates. If, at the same time, the barriers that hindered our export trade were relaxed, this would have a salutary counteracting effect upon the situation. From a purely business point of view he thought the Chancellor of the Exchequer was undoubtedly right in his opinion that an increase in taxation would have a bad effect upon general trade and upon industrial conditions. Let us hope—and he was sure that this was a general though seldom expressed thought—that the international situation might improve sufficiently to permit of some curtailment of the programme to which the country was at present committed, and which had such widespread support. Whenever he reflected upon all these problems of national and local importance he was impressed by the fact that all of them had an accountancy side, and that their solution must depend upon precise financial and statistical information. It was very pleasing to know that the younger men in the Society of Incorporated Accountants were alive to the fact that accountancy had to deal with these new problems. By the education which the Manchester and District Society, and also the other twenty District Societies, gave, by the classes and the educational programme which they were putting into effect, the younger man had an opportunity, and he was glad to hear that they were taking advantage of the opportunity, to equip themselves with the knowledge and the methods which were required in new directions. He was also glad to say that the Research Committee which the Society established two years ago had accomplished some valuable work in relation to modern requirements. Before concluding, he would like to pay his tribute to the work which was being carried on in the Manchester and Salford area by the District Society. He was glad to see that his old friend, Mr. Arthur E. Piggott, the original Honorary Secretary of the Manchester Society, was present that night. As Alderman Binns had said, Mr. Piggott's record was a marvel. It was a marvellous record of service well done for the Society, and it was always a privilege and pleasure to acknowledge great work well done. He was also glad to congratulate the Chairman on occupying the position he held as head of the Manchester and District Society this year. He would like to extend his congratulations to the members, and especially to Mr. Halvor Piggott, their Secretary. He thought he could rightly say that Mr. Halvor Piggott was carrying on the wonderful work which had previously been carried on by his father. He hoped they would go on from strength to strength in developing the educational work among the students in the area. During his two years in the office of President he had had the opportunity of visiting practically all the District Societies, and in addition to the useful work which was being carried out in every area, he was mindful of the spirit of friendship which had made his Presidency so happy and had contributed so materially to the objects pursued by the Society. (Applause.)

Mr. ALFRED SOUTHERN (Vice-President of the Manchester and District Society) proposed the toast of "The Guests," and in doing so paid a special tribute to the President of the Parent Society.

Mr. J. M. GIBSON (Manager, Westminster Bank Limited) acknowledged the toast.

Changes and Removals.

Messrs. J. W. B. Brown, Sara & Hill, Incorporated Accountants, have removed their offices to Prudential Buildings, St. Philip's Place, Birmingham.

Messrs. Ryland, Umney & Co., Incorporated Accountants, announce that the partnership has been dissolved by mutual consent. Mr. H. C. Ryland will continue to practise at St. Paul's Station Chambers, Queen Victoria Street, London, E.C., and Mr. C. B. Umney will practise at 3, Amen Corner, Ludgate Hill, London, E.C.

Mr. A. P. Dhawan, B.A., Incorporated Accountant, has commenced practice at 63, The Mall, Lahore, under the style of A. P. Dhawan & Co.

THE CHEMICAL INDUSTRY.

Incorporated Accountants are invited to attend and to take part in the discussion at the following meetings which have been arranged jointly by the Institution of Chemical Engineers and the Chemical Engineering Group of the Society of Chemical Industry :—

April 9th. "Costing Problems in the Chemical Industry," by Mr. H. R. Odling, A.C.A., at 8 p.m.

April 21st. "Valuation and Insurance of Chemical Plant," by Mr. H. A. S. Gothard, A.M.I.Chem.E., at 6 p.m.

Both meetings will be held in the Rooms of the Chemical Society, Burlington House, Piccadilly, London, W.1. No tickets are required.

Under the provisions of sect. 17 (1) of the Finance Act, 1930, an agreement has been arrived at with Greece providing for relief from double taxation on agency profits.—(S.R. & O., 1937, No. 99.)

Incorporated Accountants' District Society of North Staffordshire.

ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' District Society of North Staffordshire was held at the North Stafford Hotel, Stoke-on-Trent, on March 5th.

Mr. M. P. FERNEYHOUGH (President of the District Society) presided, and those present included the Lord Mayor and Lady Mayoress of Stoke-on-Trent (Alderman and Mrs. J. A. Dale), Mr. R. Wilson Bartlett (President of the Society of Incorporated Accountants) and Mrs. Bartlett, Sir Walter Womersley, M.P. (Assistant Postmaster-General), the Earl of Harrowby (Lord Lieutenant of Staffordshire), the Mayor and Mayoress of Newcastle (Alderman and Mrs. S. Myott), Mrs. Ferneyhough, Mr. A. A. Garrett (Secretary of the Society of Incorporated Accountants) and Mrs. Garrett; Mr. William Allen, K.C., Lieut.-Col. W. J. Kent (President of the North Staffordshire Chamber of Commerce) and Mrs. Kent, Mr. J. Paterson Brodie (Vice-President of the District Society) and Mrs. Brodie, Mr. H. P. Stanes (County Court Registrar, Hanley and Stoke), Mr. G. P. Lawton (City Treasurer, Stoke-on-Trent), Mr. J. F. Carr (Director of Education), Mr. A. P. Ford and Mr. H. E. Shipley (Chairman and Honorary Secretary of the Stoke-on-Trent and District Branch of the Chartered Institute of Secretaries); Mr. J. W. Jeffery, Mr. L. W. Caulcott and Mr. P. J. Cornell (Inspectors of Taxes); Mr. W. Bingham (London, Midland & Scottish Railway Co.), Mr. F. C. Ormrod (Official Receiver), Mr. E. Corbishley, Mr. D. E. Campbell (Wolverhampton), Mr. J. Turner (Manchester District Society), Mr. J. W. Richardson (Hon. Secretary, Sheffield District Society), Mr. H. Smith (President, Manchester District Society), and Mr. Donald H. Bates (Honorary Secretary of the North Staffordshire District Society) and Mrs. Bates.

Mr. M. P. FERNEYHOUGH (President of the District Society) proposed the toast of "The Lord Mayor and Corporation of Stoke-on-Trent." He gave some account of the history of the district which gave Arnold Bennett the material for his famous "Five Towns" novels and short stories. Since the Five Towns (in reality, Six Towns) were federated as the city of Stoke-on-Trent in 1910, great municipal progress had been made. Stoke-on-Trent was now the twelfth largest town or city in the country, andi ts central position and ease of access from London and all the principal commercial and industrial centres of the North and Midlands should commend it to manufacturers who proposed to acquire or build factories.

The LORD MAYOR, in his response, reviewed many subjects of local interest and importance.

Sir WALTER WOMERSLEY, M.P. (Assistant Postmaster-General) proposed the toast of "The Society of Incorporated Accountants." He said that accountancy was one of the most important professions in the country. Recognising this, he had recently articled his son to it. There was a certain amount of foresight in this step. They were threatened in these days with increasing nationalisation and socialisation of industry and commerce. But even if this came about, there would still be need for accountants—to check the politicians, if for nothing else. It was an old story that figures could not lie, but because liars could figure they had to have accountants. (Laughter.) Hence he thought he was a wise father in putting his son into the profession. Accountants were once regarded as expensive luxuries, but they were not so to-day. He would like to see the present-day business which did not depend on accountants for putting it right, not only in its income tax figures, but in its general methods of carrying on. He had a friend who controlled one of the largest businesses of its kind in the world, who told him that the great turning-point in it was the introduction of an accountancy department for keeping a careful watch on costs and waste. His friend was told at first that this was an expensive, non-productive department, but it enabled him to expand the business until it was now foremost in the world. The Society was founded more than fifty years ago, and now occupied an important place in the economy and organisation of the country. In these days of joint stock enterprises, when even small businesses were being conducted as public or private limited liability companies, a professional auditor must be employed by law, and every commercial man realised that his services were essential to the proper conduct of business. Business men recognised the value of accountancy, however, not merely because it was compulsory. In the matter of income tax—and in that district, he hoped, of sur-tax also—he did not know what they would do without accountants. For one thing, their figures would not be accepted without them—(laughter)—and for another, it was possible that without accountants they might be overcharged by the income tax assessors. He had known that happen, and the assessors "got away with it." Unfortunately, they could not sue the Crown in such a case. Therefore, it was wise to have assessments surveyed and scrutinised. Sir Walter said that in his experience of local government he knew a man who made himself a perfect nuisance by standing for several wards at each election, and putting his opponents to the expense of a contest. They did not know what to do with the man, but eventually they solved the problem by making him an elective auditor. (Laughter.) Parliament, in its wisdom, had given local authorities the power to employ professional accountants for purposes of audit. He advised Stoke-on-Trent, the next time they presented a Bill in Parliament, to insert a clause giving them power to dismiss their elective auditors and employ professional accountants. He congratulated the Society on its remarkable growth, mentioning that in 1920 there were 3,000 Incorporated Accountants on the roll, whereas at present the figure had increased to 7,000. Those in control of the organisation had done their job well, and deserved worthily of the members of the profession. He knew that in their profession it was of no use for a man to be a blackleg. In that respect they had some pull over other trade and professional organisations. He also congratulated the Society on what was being done to train young men in the work of the profession. Young men were given every opportunity to acquit themselves well. The Society's examinations enabled it to be seen whether they had the right talent for the work, and whether they had been industrious and acquired the right knowledge. Therefore they were equipping young men to take the places of the older men when they retired from activity. The Society's work was of value, not only to the profession but to the business community as a whole. Reviewing the work of the Post Office, Sir Walter said there was an important link between this and the profession of accountancy. The Post Office employed a staff of accountants, two thousand strong. The work of this staff was very varied. One department dealt with all financial matters relating to foreign services, and another with problems of exchange and currency. The need for these departments would be gathered from the fact that the Post Office had dealings with 150 foreign and Colonial postal administrations. Another department was engaged in checking wages, salaries and figures of

all kinds, and still another was occupied with statistics. The Post Office also relied on the help of accountants in calculating the cost of future developments, and in dealing with the surplus. In regard to the latter, he was sure accountants would appreciate his difficulties when he told them he had two sets of accounts—treasury and commercial. As one of the political heads of the Post Office, he thanked the accountancy profession for its help. Speaking as a member of the Government, Sir Walter appealed for support for the Defence Programme, which he said was not a gesture of defiance towards other nations but a measure for the protection of our own people, and to enable Great Britain to play her rightful part—for "splendid isolation" was impossible—in the affairs of the world and the attainment of world peace. (Applause.)

Mr. R. WILSON BARTLETT (President of the Society of Incorporated Accountants) responded. He said he would not take the common course of criticising the Post Office, but would, instead, commend it as being no longer a necessity to be suffered, but a great national undertaking of which they were proud. It combined art with courtesy, science with enterprise, and initiative with sound administration. Nowadays the public listened to the "golden voice," and feasted their eyes on artistic advertisements which beguiled them to transmit, in golden envelopes, their birthday greetings and valentines. Finally, the Post Office provided a useful surplus of twelve and a half millions, and to that extent prevented further taxation being imposed. Mr. Bartlett thanked Sir Walter Womersley for his references to the Society, and said that the profession of accountancy, like that of law, was a product as well as a necessity of modern civilisation. Both professions had to be properly organised if they were to function effectively. That was the reason for the formation and the carrying on of the Society. It safeguarded the public as well as the profession, because the interests of the public and of the profession were fundamentally the same. In view of the responsibilities of those who controlled the various departments of the Government at the present time, the Society would be only too happy if the particular qualifications of its members were of any assistance in the fulfilment of the programme recently outlined by the Chancellor of the Exchequer. Accountants, owing to their diverse practices, were on many occasions in a position to collect facts and give advice in relation to the various difficulties encountered by industry and commerce. At present, trade was showing a very welcome revival, but until there was a much bigger improvement in the export trades he personally was inclined to advise caution in being optimistic. As a resident of South Wales, he criticised the Government's White Paper on the Special Areas as disappointing and ultra-cautious. The Government's tariff policy had done much for most of the manufacturing trades, particularly iron and steel, but tariffs were no help to districts which depended on a large export trade in raw materials. Many areas, therefore, still suffered unduly from the burden of out-relief, with a consequent heavy increase in local rates. This was unfair and inequitable, and militated to a great extent against the establishment of new industries in these special areas. In some areas the rates for public assistance alone last year were as high as 9s. in the £; in one, close to his home, they were as much as 14s. 10d. Other areas were easy to find where the public assistance rate was less than 3s. in the £. As public assistance was now recognised as a national necessity, it would appear that the only real solution of the problem was to make it a charge on the National Exchequer, and not one on the ratepayers in each particular area. Rates were the only form of liability to-day which took no account of the debtor's ability to pay. It was over 30 years ago that the Royal Commission on Local Taxation agreed that, in general, the funds to pay for national services should be raised according to ability to pay, and that taxes were raised more in accordance with this principle than rates. In conclusion, Mr. Bartlett said the work of training young members for the profession was mostly done, not by the Parent Society, which was the examining body, but by the District Societies. He thanked the North Staffordshire Society, its President (Mr. Ferneyhough), its Vice-President (Mr. J. Paterson Brodie), its Honorary Secretary (Mr. Donald H. Bates), and its officials and Committee for what they were doing for the profession and for the young men entering it. (Applause.)

Mr. Bartlett presented Mr. William Allen Follows, a member of the staff of the City Treasurer's Department, Stoke-on-Trent, with a certificate recording his success in the Society's Final examination in London last November. Mr. Follows gained the First Certificate of Merit and First Prize, and Mr. Bartlett congratulated him on his performance. With the certificate was a prize from the District Society. Mr. Follows made a brief reply, in which he acknowledged his indebtedness to the District Society.

Mr. WILLIAM ALLEN, K.C., proposed the toast of "The Trade and Industries of the District." He warned manufacturers not to be diverted by the prospect of immediate profits from armaments and ancillary trades into sacrificing export trade, and advised them to take into account the rise in interest rates which must inevitably follow the Government's borrowing programme.

Lieut.-Col. W. J. KENT responded.

Mr. E. DOWNWARD (Honorary Treasurer of the District Society) proposed the toast of "The Guests," to which the Mayor of Newcastle responded.

The President of the District Society presented Sir Walter Womersley and Mr. Wilson Bartlett with mementoes of the occasion—the former with a Copeland ware coffee service, and Mr. Bartlett with a Doulton china figure, "Sweet and Twenty."

Correspondence.

Shakespeare and Accountancy.

To the Editors, *Incorporated Accountants' Journal.*

SIRS,—Your correspondent in the last issue of the *Journal* has quoted some apt references to Accountancy from our well-beloved Shakespeare. The following words might well have been addressed to the Commissioners for Income Tax in Athens of old, when Flavius the Steward said :—

"If you suspect my husbandry or falsehood,
Call me before the exactest Auditors
And set me on the proof . . ."
(Timon of Athens, Act II, Scene II.)

The heart of the most spendthrift of clients would melt if he was appealed to in these earlier words of Flavius :

"At many times I brought in my accounts,
Laid them before you ; you would throw them off
. . . . . I did endure
Not seldom, nor no slight checks, when I have
Prompted you in the Ebb of your estate
And your great flow of debts . . . .
Though you hear now, too late, yet now's a time,
The greatest of your having lacks a half
To pay your present debts."

Yours faithfully,
CULLER.

London, March, 1937.

Society of Incorporated Accountants and Auditors.

Scottish Branch.

(Scottish Institute of Accountants.)

ANNUAL MEETING.

The annual meeting of the Scottish Branch was held in Glasgow on the 19th ult. There were present Mr. Robert T. Dunlop, Mr. W. Davidson Hall, Mr. Walter MacGregor, Mr. J. Stewart Seggie, Mr. J. T. Morrison, Mr. W. L. Pattullo, Mr. E. Mortimer Brodie, Mr. P. G. S. Ritchie, Mr. Robert Fraser, Mr. E. Hall Wight, Mr. Wm. Hill Jack, Mr. John A. Gough, Mr. E. H. Harris, Mr. J. Hawthorne Paterson, Mr. Robert Armit, Mr. R. J. Thursby, Mr. Thos. Robertson, Mr. A. Findlay, Mr. J. S. Hamilton, Mr. W. H. Masson, Mr. James B. Hutcheson, Mr. W. A. Eadie, Mr. James M. Roxburgh, Mr. John Aitchison, Mr. D. Basu, B.Sc., Mr. John S. Gavin, Jr., and Mr. James Paterson, Secretary of the Branch.

Mr. Robert T. Dunlop, President of the Branch, in moving the adoption of the report and accounts, said the report showed the loss of three old members who had been connected with the Scottish Branch for many years, and whose passing they all regretted. The Society with which they were connected now numbered almost 7,000 members, and they in Scotland endeavoured to uphold the high professional standards set up by the Society. The Scottish Branch showed distinct progress during the year. The membership of the Branch and the funds at its credit showed satisfactory increases; there was an increase in the number of articled clerks and other examination candidates, while there were substantial increases in the membership of the Students' Societies in Scotland. In this connection he referred specially to the very practical interest taken by Mr. Davidson Hall in the Glasgow Students' Society. Several matters which the Scottish Council thought would be of assistance with regard to the examinations had been brought before the London Council by the representatives from Scotland on that Council, and although not adopted he was not without hope that their discussion would lead to an improvement without any diminution of the high standards aimed at. After referring to a number of other matters, including the Benevolent Fund, which, he said, deserved the support of every member of the Society, he moved the adoption of the report and accounts for 1936. This was seconded by Mr. W. Davidson Hall and, after comments by several members, was adopted.

The retiring members of Council—Mr. W. J. Wood (Perth), Mr. W. Davidson Hall (Glasgow), Mr. J. Stewart Seggie (Edinburgh), and Mr. James Paterson (Greenock) were re-elected, and the co-option of Mr. Festus Moffat (Falkirk) was confirmed.

The retiring honorary auditors, Mr. J. C. McMurray and Mr. W. D. Fisher, were re-elected.

The President and Secretary were re-elected as representatives of the Scottish Branch on the London Council.

In moving a vote of thanks to the chairman, Mr. Pattullo said that Mr. Dunlop had done very good work for the Scottish Branch, and he deserved their sincere thanks not only for presiding that day, but for his work at all times on behalf of the Branch. In acknowledging the vote of thanks, Mr. Dunlop said that his work was made easy by the very efficient manner in which the Secretary, Mr. Paterson, carried out his onerous duties.

Annual Report.

The Council have pleasure in presenting the 57th Annual Report of the Scottish Branch for the year ended December 31st, 1936.

DEATHS OF MEMBERS.

Since the last Annual Report, the Scottish Branch has lost three of the early members of the Scottish Institute: Mr. Adam Hunter (Dundee), Mr. Robert Baxter (Inverkeithing), and Mr. George Mollison (Aberdeen). These members joined the Scottish Institute of Accountants more than 40 years ago, and were highly respected and successful Incorporated Accountants in the districts in which they practised.

MEMBERSHIP.

The membership of the Branch shows a slight increase, notwithstanding losses by death and removals to other districts.

It may be mentioned that an employment register is kept at the London office and vacancies are advised to candidates whose names are on the Register, or who intimate to the Secretary of the Branch that they wish to know of vacancies.

The Council, following a precedent of many years, held a meeting in Edinburgh during the year, and had an opportunity of meeting a number of the members of the Society in that City, while the Secretary had several meetings with the Edinburgh candidates. He had also a meeting with Aberdeen members and candidates during the year.

STUDENTS' SOCIETIES.

The membership of the Students' Societies shows satisfactory increases.

It was found that the panel of Lecturers set up by the London Council did not fit in with the arrangements in Scotland, and the Council of the Scottish Branch arranged for a series of tutoral lectures on Scots Law by Mr. Donald A. S. McLeish, M.A., LL.B., Solicitor, Glasgow, for the session 1936-37. These were well attended by articled clerks and other examination candidates and highly appreciated. A further series of lectures on accountancy subjects by Mr. Frederick D. Greenhill, C.A., Glasgow, was also arranged, and will be completed in April, 1937.

Mr. J. Hawthorne Paterson, F.S.A.A., 78, St. Vincent Square, Glasgow, has been appointed Hon. Secretary and Treasurer of the Glasgow Students' Society in succession to Mr. James A. Mowat, who intimated his wish to be relieved of the duties.

EXAMINATIONS.

The usual examinations were held in May and November, 1936, and were attended by 50 candidates, an increase of three over last year. The results cannot be considered satisfactory as only 20 of these candidates were successful in passing the respective examinations. The Council hope that the lectures referred to in the preceding section of this Report will enable a considerable improvement to be made in the examination results in 1937.

At the Annual Meeting held on March 6th, 1936, the Council had the pleasure of presenting prizes from the W. D. Hall Fund to Mr. J. A. Cremin, B.A., Stirling, and Mr. Thomas Methven, Linlithgow, who had taken first places in the November, 1935, Intermediate and Preliminary examinations respectively.

W. D. HALL FUND.

The Council have again to report with pleasure a further payment, being the eighth, of £4 from Mr. W. Davidson Hall towards the Prize Fund, and would place on record the great indebtedness of the Students' Societies, and particularly the Glasgow Students' Society, to Mr. Hall for his constant practical interest in their work.

LIBRARY.

A number of new books have been added to the Library, and the Council have to express their thanks to Mr. Walter MacGregor, F.S.A.A., Edinburgh, who has again given a sum to be expended in Library books.

LONDON COUNCIL.

As in former years, the President and Secretary represent the Scottish Branch on the London Council.

GLASGOW CHAMBER OF COMMERCE.

The Scottish Branch is represented in the membership of the Glasgow Chamber of Commerce by the President, Mr. Robert T. Dunlop, F.S.A.A., and Mr. John A. Gough, F.S.A.A.

INCORPORATED ACCOUNTANTS' COURSE.

The Post Graduate Course at Cambridge, held in July last, was successful and was attended by two Scottish members, Mr. J. Hawthorne Paterson, F.S.A.A., and Mr. John Aitchison, A.S.A.A.

BENEVOLENT FUND.

The Council again commend the Society's Benevolent Fund to the support of the Members of the Scottish Branch, by life membership, donation or annual subscription. Calls on the Benevolent Fund from Scottish members have fortunately been few, but when the necessity arose to make an application the Trustees dealt with it very generously.

The Council also recommend that all members of the Branch and senior candidates should be subscribers to the *Incorporated Accountants' Journal*, the official organ of the Society, the annual subscription to which is 12s. 6d.

VACANCIES IN COUNCIL.

The members of the Council who retire at this time are: Mr. W. J. Wood, Perth; Mr. W. Davidson Hall, Glasgow; Mr. J. Stewart Seggie, Edinburgh; and Mr. James Paterson, Greenock—who are eligible for re-election. The co-option by the Council of Mr. Festus Moffat, F.S.A.A., Falkirk, to fill a casual vacancy also falls to be confirmed at this meeting.

AUDITORS.

The Auditors, Mr. J. C. McMurray, F.S.A.A., Kilmarnock, and Mr. W. D. Fisher, F.S.A.A., Glasgow, also retire, and are eligible for re-election.

Scottish Notes.

[FROM OUR CORRESPONDENT.]

Meeting of Scottish Council.

A meeting of the Council of the Scottish Branch was held in Glasgow on 19th ult. There were present: Mr. Robert T. Dunlop, President of the Branch, in the Chair; Mr. W. Davidson Hall, Mr. P. G. S. Ritchie, Mr. W. Hill Jack, Mr. Robert Fraser and Mr. E. Hall Wight, Glasgow; Mr. J. Stewart Seggie and Mr. Walter MacGregor, Edinburgh; Mr. J. T. Morrison, Coatbridge; Mr. W. L. Pattullo, Dundee; Mr. E. Mortimer Brodie, Port Glasgow; and Mr. James Paterson, Secretary.

Apologies for absence were intimated from Mr. Wm. Houston, Mr. Festus Moffat and Mr. W. J. Wood.

The President reported on several questions relating to the examinations which had been before the London Council, and the Secretary reported as to a number of membership matters, the position of the Students' Societies, &c.

At a meeting of Council held after the annual meeting, Mr. Robert T. Dunlop was re-elected President; and Mr. W. Davidson Hall, Glasgow, Mr. D. R. Matheson, M.A., LL.B., and Mr. Walter MacGregor, Edinburgh, were re-elected Vice-Presidents for the ensuing year.

Glasgow Students' Society.

A meeting of the Glasgow Students' Society was held on February 24th, Mr. W. Davidson Hall, F.S.A.A., in the chair. Accounts were submitted made up to December 31st, 1936, showing the finances in a healthy condition. Mr. James Hawthorne Paterson, F.S.A.A., was elected Hon. Secretary and Treasurer in succession to Mr. James A. Mowat, who had demitted office.

The first of a course of lectures was given by Mr. Frederick D. Greenhill, C.A., Glasgow, on February 24th. Mr. W. Davidson Hall, F.S.A.A., occupied the chair, and introduced the lecturer, who said his subject that evening was on "Trust and Executry Accounts, with some Observations on the General Rules governing Apportionment." The lecturer discussed at some length the form of accounts of charge and discharge, the method generally adopted in Scotland, explaining how these accounts were built up. He also discussed very fully the general rules relating to apportionment between capital and revenue.

The second lecture on this subject was given on the 10th ult., when Mr. James Paterson, Secretary of the Scottish Branch (in the absence through illness of Mr. W. Davidson Hall) occupied the chair. Mr. Greenhill dealt with different types of adjustments likely to arise in preparing answers to questions in the examinations on this subject and on apportionments, and illustrated his lecture with typed examples supplied to those present. At the close he answered a number of questions by the students in further elucidation of the two lectures on this subject.

Another lecture by Mr. Greenhill was given on the 24th ult. The subject was "Auditing," and was dealt with mainly from the examination point of view. Mr. W. Davidson Hall again occupied the chair, and referred to the very satisfactory attendances of students.

The next and concluding lecture will be on Wednesday, April 7th, at 5.45 p.m., in the Scottish Constitutional Club, Glasgow.

A Masonic Muster.

The annual meeting of the Grand Priory of Scotland (Order of the Temple) was held in Edinburgh on the 17th ult., the chair being occupied by Frater Brigadier-General Sir Robert Gilmour, Bt., Grand Master of the Order. Officers were elected and installed for the ensuing year, Mr. D. R. Matheson, M.A., LL.B., F.S.A.A., Edinburgh, being re-elected Grand Secretary.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.*, (1925) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Session Cases* (*Scotland*); S.L.T., *Scots Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace* (*England*); L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Roll; N.I., Northern Ireland; P., Probate, Divorce and Admiralty.]

EXECUTORSHIP LAW AND TRUSTS.

In re **Keen's Estate; Evershed v. Griffiths.**

Secret Trust.

By clause 5 of his will a testator gave to trustees a sum "to be held upon trust and disposed of by them

among such person, persons or charities as might be notified by him to them or either of them during my lifetime."

Some months earlier the testator had lodged with one of the trustees a sealed envelope addressed to the trustees. This was to be placed with his will and not to be opened till his death. It was lodged at the same time that an earlier will containing the same clause was executed. It was found to contain the name and address of a lady, with the words "in accordance with the directions of my will."

It was held that the sealed envelope constituted a notification within clause 5 of the will; but that the clause contemplated a notification given subsequently to the date of the will, with the result that it was not a valid testamentary disposition.

(C.A.; (1937) 53 T.L.R., 320.)

In re Liberty's Will Trusts.

Equitable Life Estate.

Sect. 85 (1) of the Settled Land Act, 1925, provides that when the tenant for life is required by the trustees to repay by instalments the capital money expended, the tenant for life is authorised to create out of the settled land a yearly rentcharge in favour of the trustees of the settlement sufficient in amount to discharge the instalments.

It was held that where a tenant for life, whose life interest is defeasible on alienation, executes a deed creating a rentcharge on the settled estate under sect. 85 (1), to repay money advanced to him by the trustees out of capital for the purpose of carrying out repairs to the settled property, the fact that some of the improvements are not authorised by the Act—if such be the case—with the result that the rentcharge is larger than allowed by the Act, does not result in an alienation of the life interest. In such circumstances the deed is only effective to create a rentcharge for an amount which will replace to capital the cost of the improvements authorised by the Act.

(Ch.; (1937) 53 T.L.R., 323.)

In re Roberts' Will Trusts; Younger v. Lewins.

Bank as Executor and Trustee.

A testatrix, who appointed a bank as one of her executors and trustees, declared that the bank should be entitled to remuneration in accordance with "the bank's scale of fees now in force." By her will the testatrix gave settled legacies on certain trusts. The question arose whether the income fee and the withdrawal fee charged by the bank were payable respectively out of the income and capital of the settled legacies or out of the residuary estate.

It was held that when the funds for the legacies were taken out of the estate and invested separate trust funds were formed the liability of the residue ceased; and that the income and withdrawal fees must be borne respectively by the income and capital of each settled legacy.

(Ch.; (1937) 53 T.L.R., 358.)

In re Hall's Settlement Trusts; Samuell v. Lamont.

Trust for Payment of Legacies.

A settlement declared a trust for payment of legacies given by the will of the settlor, which will was in existence when the settlement was executed, but was later revoked. During the settlor's lifetime the Court made an order declaring the trusts which, under the settlement, were to take effect after his death, to be irrevocable whether he should or should not revoke his will, as in fact he did. The legatees predeceased him.

It was held that the administration of the estate provided for payment to the legatees, in accordance with the trusts of the settlement, if they were alive, but provided for nothing more, and that as the legatees had predeceased the settlor the sums representing the legacies which they would have received under the will had it not been revoked were not payable to their personal representatives.

(Ch.; (1937) 53 T.L.R., 382).

REVENUE.

Inland Revenue Commissioners v. New Sharlston Collieries, Limited.

Profits or Gains.

The respondents, being lessees of minerals without any right to let down the surface, obtained from the surface owner, by an indenture dated July 31st, 1901, full liberty to work the minerals notwithstanding that such working might cause subsidence of the land or withdrawal of support therefrom. The indenture contained a proviso that nothing therein contained should affect the rights of the surface owner to compensation for actual injury to buildings and other things on the land. But no compensation was to be payable for mere depression or lowering of the surface not causing actual damage. The consideration payable by the respondents for such right was £1,000 a year, together with an acreage rent or royalty.

It was held that the right given to the respondents by the indenture of July 31st, 1901, was "a right, privilege or benefit in, over or derived from land" within the meaning of sect. 21 (4) (*b*) of the Finance Act, 1934, and was therefore an easement within the meaning of that section, and that the yearly payment of £1,000 could not be deducted in computing the amount of the respondents' profits and gains to be charged to income tax under Schedule D.

(C.A.; (1937) 53 T.L.R., 280.)

Lincolnshire Sugar Company v. Smart.

Trade Receipt.

The House of Lords held that a subsidy received by the appellant company under the British Sugar Industry (Assistance) Act, 1931, was a supplementary trade receipt bestowed on the company by the Government, and was to be taken into computation under Case I of Schedule D of the Income Tax Act, 1918, in arriving at the balance of the company's profits or gains for the year in which it was received.

(H.L.; (1937) 53 T.L.R., 306.)

Reed v. Cattermole.

Occupation of Manse.

A minister of the Methodist Church was appointed to a Circuit containing nine churches, the appointment involving his residence in a manse provided, furnished, decorated and repaired by the Circuit. The minister was not allowed to sub-let the manse or make any profit from his residence in it. Schedule A tax and the water and local rates on the manse were paid by the Circuit. The assessment on the minister under Schedule E in respect of the profits of his office included the sum which had been paid by the Circuit in respect of Schedule A tax, water and local rates on the manse.

It was held by the Court of Appeal, affirming the decision of Lawrence (J) (see *Incorporated Accountants' Journal*, September, 1936, p. 468), that the minister resided in the manse as a servant of the Church, not as part of the remuneration for his services, but in order to perform those services. His use of the manse as a residence was ancillary to the purposes of the Church, and he was not, therefore, the occupier within the rules applicable to Schedule A of the Income Tax Act, 1918. Consequently he was not liable to be assessed under Schedule E in respect of Schedule A tax, water and local rates on the manse.

(C.A.; (1937) 53 T.L.R., 369.)